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AN

# ESSAY

ON

# THE THEORY OF MONEY

AND

# PRINCIPLES OF COMMERCE.

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BY JOHN WHEATLEY.

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VOL. I.

LONDON:

PRINTED FOR T. CADELL AND W. DAVIES, STRAND;
BY W. BULMER AND CO. CLEVELAND-ROW,
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TO THE

RIGHT HONOURABLE

# LORD GRENVILLE,

*&c. &c. &c.*

My Lord,

From the noble and constitutional Principles, which have uniformly governed your actions, and from my admiration of your conduct in every event of your political life, I should be led to solicit the honour of addressing this Inquiry to you, in preference to any other Statesman, did not your superior attainments as a Public Economist, and the

great and transcendent talents, which you displayed in the direction of our Finances, during your late Administration, peculiarly prompt me to request your acceptance of a work so materially connected with the department of the government under your immediate control.

I have the honour to be,

My Lord,

With the greatest respect,

Your very faithful and

Obedient humble Servant,

JOHN WHEATLEY.

*Lesney, April* 6, 1807.

# PREFACE.

THE theory which I have attempted to establish in the following Essay, is precisely the same as that of which I gave a general analysis in the Prospectus which I published of this work in 1803, under the title of Remarks on Currency and Commerce; but the detail which was there omitted, is here added, and with the enlargement I hope there is some improvement.

It may, perhaps, be necessary to offer an apology for presenting to the Public the First Volume only; but the work admits of a distinct division; the first part relating to the refutation of our existing commercial system, and the second to the developement of a new one.

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# ESSAY, &c.

## CHAPTER I.

*On the Writings of Mr. Hume, Sir James Steuart, and Dr. Adam Smith.*

CHAPTER I.

BEFORE I undertake to investigate the principles of circulation and commerce, it is necessary to explain the progress, which has been hitherto made in their illustration. The three principal authors who have attempted to elucidate them are, Mr. Hume, Sir James Steuart, and Dr. Adam Smith.

The Political Discourses of Mr. Hume were published in 1752; and, like every other production of that inestimable writer, display the powers of a comprehensive and enlightened intellect: but as it was not his intention to give to the world an elementary work, he forbore to enter into the detail and proof, which an elaborate treatise

required.(*a*) He designed them to be what he emphatically calls in his prefatory remarks, universal propositions, that included a whole science in a single theorem; and he (*b*) exclusively addressed them to the speculative politician, as a groundwork for the construction of a future system.

The fundamental principles deducible from his argument are:

That all prices are in proportion to the quantity of money.

That an increase of money is not an increase of wealth.

And that the value of money is every where on a level.

But as he examined his subject in too cursory a manner to give to his observations the consistency and precision of a regular inquiry, he frequently drew partial inferences in direct opposition to his general reasoning.

Though he contended, that an increase of money was not an increase of wealth, as prices were raised in proportion to the augmentation, yet he asserted, that all commercial (*c*) relations were disadvantageous, which required the efflux of money to support them: and though he argued, that money every where maintained its level, yet he admitted, that one nation might retain a

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(*a*) See Hume's Essays, Vol. I. p. 282.
(*b*) Vol. I. p. 314. (*c*) Vol. I. p. 346.

greater relative quantity, than another, which is incompatible with the nature of a level.(*a*)

He adduced the position, that plenty of money, which, in the spirit of the times, he termed (*b*) great riches, gave obstruction to trade, by the advance of prices; (*c*) yet he at the same time contended, that it gave a stimulus to industry—two effects, which are wholly inconsistent with each other. In conformity to these contradictory opinions, he in one place deprecates the increase of currency, and in another approves it. He condemns the circulation of paper,(*d*) because it causes the increase, and recommends the debasement (*e*) of coin, for the purpose of causing it.

But even had these partial inconsistencies been avoided, and his argument been more correctly shaped, there were, at the time in which he wrote, no data, that could have enabled him to have established the validity of his principles, in refutation of the theory of the balance of trade by the testimony of facts. He was totally incapable of accounting for the constant excess of exports above imports in the custom-house entries, which every supporter of the balance advanced as indisputable proof of the influx of money, in direct contradiction of his inference. He endeavoured indeed to evade what he could not obviate, by observing, that the custom-house

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(*a*) Vol. I. p. 311—350. (*b*) Vol. I. p. 311. (*c*) Vol. I. p. 313—316.
(*d*) Vol. I. p. 312. (*e*) Vol. I. p. 317.

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books were allowed to be an insufficient ground of reasoning:(*a*) but though the immutability of the rate for the estimate of the entries necessarily make the valuation inaccurate, yet as the exports and imports are both reduced in the same proportion below their current value, it furnishes no evidence to impeach the fact of a constant excess of exports: and until a satisfactory explanation be given of this fact, no successful argument can be constructed to explode the doctrine of a balance.

In the examination, however, of Mr. Hume's Discourses, it is necessary to keep in view, that his exclusive object in the publication of his principles was to contribute to the formation of a future theory; and that to reduce them to a system, to give them the form of a regular treatise for practical use, and to apply them to the existing state of our circulation and trade, was wholly foreign to his purpose. The preceding inconsistencies sufficiently shew, that he failed even to apply them to his own argument.—In the subsequent controversy, which he held with Dr. Tucker, on our rupture with America, he made no allusion to them, though they would have afforded the best solution of the question which they agitated. His Essays, therefore, should be examined with relation only to the object which he professed. In this object he has not been disappointed; since, notwithstanding that, from the remote and abstract nature of his oinions, they have failed to make their way into the public councils of Europe, they have materially operated

(*a*) Vol. I. p. 342.

to guide the views, and reform the speculations, of the political economist; and scarce an inquiry has been written into the theory of commerce and finance, since their introduction, without due reference to his high authority.

To supply what he has omitted, and to give to his principles their proof and practical application, is the chief purport of the present investigation.

The Inquiry of Sir James Steuart into the Principles of political Economy was published in 1767; and was an effort, (*a*) as is stated in the preface, to form into a regular science the complicated interests of domestic policy. But no means could have been more inefficient than those to which he resorted for the accomplishment of his object.

He states, that his work (*b*) was the successive labour of many years passed in travelling through different countries, (*c*) which he constantly examined with an eye to his own subject; that he attempted to draw information from all with whom he was acquainted; but as his previous proficiency in the science was too limited to enable him to form proper questions, he was incapable of deriving from such an intercourse the full benefit, which it would have otherwise afforded; and as the variety of opinions, which he collected, prevented the con-

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(*a*) See Preface to Sir James Steuart, page 5. (*b*) Ibid. page 6.

(*c*) He followed the fortunes and attended the exile of the fallen family of his name.

CHAPTER I.

struction of a regular plan, he framed his essay from a compilation of the observations which he casually made, after expunging the numberless inconsistencies (*a*) and contradictions, which he found had arisen from his separate inquiry into every particular branch.

He adds, "that he was particularly desirous of avoiding general rules, and the habit of running into what the French call systemes." (*b*) "These are no more than a chain of contingent consequences drawn from a few fundamental maxims adopted, perhaps, rashly; such systems are mere conceits; they mislead the understanding, and efface the path to truth. An induction is formed, whence a conclusion called a principle is drawn; but this is no sooner done, than the author extends its influence far beyond the limits of the ideas present to his understanding when he made his deduction." It would be difficult to give a more comprehensive definition of a principle than is conveyed by this intended sarcasm.

In whatever light Sir James Steuart might have regarded the formation of systems, it is somewhat singular that he should have denounced them, because they were nothing more than a chain of consequences drawn from a few fundamental maxims. It may be said of the noblest exhibition of human reason, and the most accurate composition in the world of letters, the Elements of Euclid, that they are nothing more than a chain of consequences drawn from a few fundamental maxims; and it may be with truth

(*a*) See Preface, page 7. (*b*) Ibid. page 9.

affirmed, that they exclusively derive from this very foundation their excellence and power. The perfection of every science peculiarly consists in the simplicity of its primitive principles, the unconstrained flow of the reasoning immediately deducible from them, and the clear and obvious fidelity of its conclusions; nor is it easy to conceive by what illusion Sir James Steuart could have been led to have entered his protest against systems, constructed on the model of this immortal work, when it is evident from various parts of his inquiry, that he was himself an eminent mathematician.

Many instances have doubtless occurred, where statesmen have shewn considerable reluctance to the admission of speculative reasoning, and the authority of fundamental principles for the regulation of their conduct; and it is probable, that Sir James Steuart might have been impressed with an unfavourable opinion of abstract positions, from frequent communication with the leading characters of the courts where he occasionally resided. But neither he, nor the statesmen of his time, appear to have been aware that they were acting in direct opposition to the policy, which they prescribed, by conforming to the theory of the balance of trade. Upon this system, notwithstanding his cautious forbearance, Sir James Steuart has grounded the main argument of his work; and upon this system, notwithstanding their avowed repugnance, his cotemporary statesmen conducted the commercial relations of Europe. Yet the most refined and subtle theory, that ever played in the fancy of a visionary recluse, could not be more abstracted and remote from

real existence, than this fallacious doctrine. It is exclusively founded on the speculative principle, that the wealth of a nation consists in its money, which is wholly illusive, and on the supposed fact, that vast sums are received and accumulated upon the annual recurrence of a favourable balance, for which there is not the slightest foundation. Previously, therefore, to a general denunciation of systems, an examination should have been made, how far the subsisting regulations for the commercial intercourse of Europe were formed upon system, and how far that system was consistent with truth.

Not only, however, was Sir James Steuart adverse to the establishment of systems, but he repeatedly asserted, in the body of his work, that in the science (*a*) of political economy no general rules could be laid down, though he forbore to explain how a science could be completed without them. It would be wholly repugnant to reason to imagine, that an author, who, from whatever impulse, set out on his travels in quest of information on a subject, of which he had no previous knowledge, and compiled a vast mass of materials from casual observation and vague inquiry, without plan, principle, or system, could have formed into a regular science, which was to be composed without rules, the complicated interests of domestic policy.

In the execution of his work he has rigidly conformed to the language of his preface, for in vain do we seek one luminous principle to direct us through the elaborate

(*a*) See Sir James Steuart, page 394.

disquisition to a satisfactory conclusion. But as I should be carried far beyond the limits of this inquiry, were I to follow him through his various research, I shall confine my observations to the efforts which he made to illustrate the principles of circulation and commerce.

In his chapter on circulation, "as it regarded the rise and fall of the price of subsistence and manufactures, he endeavoured to discover what it was that determined the standard (*a*) price of the articles of the first necessity;" and the best way," he observed, "to come at truth in all questions of this nature was to simplify them as much as possible, in order that they might be clearly understood."—The simple conclusion, therefore, to which his argument conducted him for the solution of his question, was, (*b*) "that the faculties of those who labour for a physical necessary must, in industrious nations, determine the standard value of subsistence; and the value in money, which they receive for their work, will determine the standard of their faculties, which must rise or fall, according to the proportion of the demand for their labour."—"By this exposition of the matter," he adds, "I do not pretend to have dissipated every obscurity, the question still remaining complex as the nature of it requires it should do,"—notwithstanding its simplification.

After this elucidation "of the cause of the rise and fall of the price of subsistence," he proceeded to a further investigation of the general question, by controverting

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(*a*) See Sir James Steuart, p. 395. (*b*) Ibid. p. 398.

CHAPTER I.

## Mr. Hume's position, that all prices were in proportion to the quantity of money.

(*a*) "In order to set the matter," he remarks, "in as clear a light as possible, I shall make a short application of my own principles relating to the decision of the main question, the causes of the rise and fall of prices. I have laid it down, as a principle, that it is the complicated operations of demand and competition, which determines the standard price of every thing. If there be many labourers and little demand, work will be cheap: if the increase of *riches*, therefore, have the effect of raising demand, work will increase in its value, because there competition is implied; but if it has only the effect of augmenting demand, prices will stand as formerly. What then will become of the additional quantity of coin, or paper money? I answer, that in both cases it will enter into circulation in proportion to the rise or augmentation of demand; with this difference, that in the first case it will have the effect of raising prices, because the supply is not supposed to augment in proportion; in the second, prices will stand as they were, because the supply is supposed to augment in proportion. These are the consequences of the augmentation of *wealth*, when it has the effect of either raising or augmenting demand. But if upon this revolution, it be found, that the state of demand remains without any variation, then the additional *coin* will probably be locked up, or converted into plate; because they, who have it, not being inspired with the desire of increasing their consumption, and far less with the generous sentiment

(*a*) See Sir James Steuart, page 399.

of giving their *money* away, their *riches* will remain without producing more effect than if they had remained in the mine. As for the paper money, so soon as it has served the first purpose of supplying the demand of him who borrowed it (because he had at that time no coin), it will return upon the debtor in it, and become realised, because of the little use found for it in carrying on circulation. Let the *specie* of a country, therefore, be augmented or diminished in ever so great a proportion, commodities will still rise and fall according to the principles of demand and competition; and these will constantly depend upon the inclinations of those who have property, or any kind of equivalent whatsoever to give, but never upon the quantity of coin they are possessed of."

The positions, which, by the preceding argument, and by the general scope of his reasoning, from page 400 to page 414, he endeavoured to establish, were, that an increase of money must either cause an increase of demand, which must consequently enlarge the supply, and keep prices, as they are; or that, "the augmented proportion will not enter into circulation," but (*a*) "wait not only the call of a desire in the proprietors to consume, but of the industrious to satisfy this call:" if, however, the position were true, that an increase of money led to a proportionate increase of produce, money would have retained through all ages the same invariable value; as Sir James Steuart admitted, that if produce were augmented in the same proportion, there woul dbe no advance of prices; but from the earliest period to the present times, as will

(*a*) See Sir James Steuart, page 407.

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be sufficiently manifested in a future part of this work, there has been an invariable depression in the value of money. It is therefore evident that the augmented demand, in consequence of an increase of currency, has not occasioned a proportionate increase of produce.

The other position, that if the additional sum did not cause this effect it would not enter into circulation, but be hoarded in treasure, is contradicted by the same fact; for, if it had never entered into circulation, it could not have contributed to the advance of prices.

No conclusion can therefore be formed from his argument to refute the position of Mr. Hume, that "all prices are in proportion to the quantity of money." (*a*) This principle, indeed, appears so obvious, that it would be superfluous to enter into the proof of its validity; and I shall assume it as a postulate that would be universally conceded.

In the ensuing chapter he undertook to examine whether there were really a balance of trade which enriched one nation and impoverished another; and as he was aware that the theory was impracticable, if the value of money were every where on a level, he endeavoured to refute this position, by controverting the hypothesis which Mr. Hume, for the sake of argument, proposed, that if four fifths of the money of Great Britain were annihilated in one night, commodities would sink in price, and be exported to foreign nations to bring over their surplus

(*a*) See Sir James Steuart, page 414.

currency. Sir James Steuart contended, that if such an event took place, the people of Great Britain would starve, (*a*) because all the necessaries of life would be exported for the *money* of the continent; and as it would annihilate both industry and the industrious, it could not afterwards be insisted on, that it would draw over a proportional part of the general *wealth* of Europe.

Money, in Sir James Steuart's imagination, though it be not so stated in his inquiry, exclusively constituted wealth: he always uses the money, the wealth, and the riches of a nation, as synonymous terms; he therefore concluded, that all the exportable produce of the country must be transmitted to the continent to repair the loss, though the most cursory view of our custom-house entries might have convinced him, that the circulation could be re-established without the deprivation of a single grain.

But even had his argument been applicable to the extreme case which Mr. Hume suggested, it would not have applied to the casual inequalities in the value of money, which arise in the ordinary course of events; as it could not in these instances be contended that the export of provisions would be necessary to restore the equilibrium. In order to refute the general principle, that money every where maintained its level, it was incumbent upon him to have pointed out some universal cause that tended in all instances to obstruct it, and not a particular cause, that could only operate in a particular instance: but deciding the controversy in his own favour, and realising the

(*a*) See Sir James Steuart, page 418.

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supposition of Mr. Hume, he added, "from this I conclude, that a nation, though industrious and populous, may reduce itself to *poverty* in the midst of *wealthy* neighbours, as a private person, though rich, may reduce himself to want in the midst of the amusement and luxury of London or Paris; and that both the one and the other, by a different conduct, may amass great sums of *wealth* far above the proportion of it among their neighbours."

It would be useless to pass any further observations upon the arguments which Sir James Steuart adduces to illustrate the principles of circulation; as he admits, that if Mr. Hume's position be correct, that money over all the world is like a fluid, which must ever be upon a level, it leads to a chain of consequences (*a*) totally different from the whole plan of his work; and as it is the main object of my investigation to establish this position, its subsequent demonstration will sufficiently expose the fallacy of his reasoning.

The Inquiry of Dr. Adam Smith into the Nature and Causes of the Wealth of Nations was published in 1775. This celebrated essay was the first successful attempt to form into order the elements of economical science, and the first systematic effort to apply the abstractions of philosophy to the commercial policy of Europe. All preceding writers, in conformity to the popular opinions of the times, had invariably argued under a fixed impression, that wealth exclusively consisted in money; for though,

(*a*) See Sir James Steuart, page 416.

as Dr. Adam Smith remarks, (*a*) "they set out with observing, that the wealth of a country consisted not in its gold and silver only, but in its lands, houses, and consumable goods of all kinds, yet in the course of their reasonings the lands, houses, and consumable goods seemed to slip out of their memory, and the strain of their argument frequently supposed, that all wealth consisted in gold and silver, and that to multiply those metals was the great object of national industry and commerce." This impression had uniformly led them, from the age of Locke and Davenant to the time of Sir James Steuart, with the single exception of Mr. Hume, to uphold the theory of the balance of trade. But as Dr. Adam Smith, in no one instance, lost sight of the important distinction, he easily detected the fallacy of the theory. He was sensible that there existed some latent principle which prevented the accumulation of money in any given country, beyond a certain extent; and thence concluded that the theory of the balance of trade, which allowed indefinite augmentation, was inconsistent with truth: and though he never attained to the discovery of this principle, and knew not by what operation the general amount of the currency of different countries was limited, yet the simple knowledge of a restrictive power sufficiently indicated to him the total impracticability of a continual balance.

This effective principle, which regulates in all countries the amount of their currency, is the action of money in conformity to the purport of its institution as an uniform

(*a*) See Adam Smith, vol. ii. page 173, sixth edition.

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measure of value. All authors have concurred in attributing to money the properties of being the universal measure of value, and the universal medium of exchange, but none have conceived it to be a necessary result from these properties that it should be an uniform measure, that the same sum should every where express the same value. However incompetent it would be to discharge the functions of its office, were £100. in one country to measure no more value than £10. in another; were every thing that cost £100. in the one to cost no more than £10. in the other, yet all authors have reasoned in economical disquisitions as if it were possible that such a disparity could subsist, and appear not to have been aware of the impracticability of maintaining the relations of commerce under such an inequality, though it be obvious that the one country would lose and the other gain £90. per cent. in all their transactions with each other. For the due ascertainment of the weight and quantity of produce distinct measures are universally established, which are known by the different merchants of every country to contain fixed proportions of each other, and no obstruction to the commercial interchanges can occur so long as they continue in the same state, as their known proportions give them the effect of complete uniformity. But were all countries to adopt the system of subjecting them to perpetual variation, for the purpose of over-reaching each other, and to expose the commercial world to the hazard of receiving an hundred weight instead of a ton, or a gallon instead of an hogshead, it is easy to foresee the embarrassments that would ensue. But the same embarrassments that would be occasioned by the impracticability of ascertaining the weight or quantity of produce, would

be equally ocasioned by the impracticability of ascertaining its value, as the same risk must be incurred of inadequate compensation for produce remitted. The same necessity, therefore, exists for a due correspondence in the measure of value as for a due correspondence in the measures of weight and quantity. But the measures of weight and quantity are universally maintained in the same fixed and settled order by established laws and usages; no laws could, however, be efficient to maintain the invariability of the measure of value, as no arbitrary regulations could control the efflux and influx of money; but the concurrent property which money possesses of being the medium of exchange, as well as the measure of value, supersedes the necessity of legislative interposition, and provides for the due performance of its functions with more regularity than the most perfect system of law could enforce; for as this property directs its current where it will exchange to most advantage, and as it necessarily follows that money will exchange to most advantge where there is the least relative quantity, it invariably causes its remittance from the place where there is the greatest relative amount, to the place where there is the least, and by maintaining the currency of all countries in the same proportion enables it to discharge its functions with fidelity over the whole world as an uniform measure of value.

The characteristic action of money, therefore, in conformity to the purport of its institution as an uniform measure, is the sole cause of the limitation of money, and the sole principle which regulates in all countries

the amount of their currency. But as this principle by some inadvertency escaped the observation of Dr. Adam Smith, he was of course incapable of explaining the fundamental tenets of the science, and elucidating the real cause of the limit of money. Instead of contending that the same sum should every where express the same value exclusive of the charge of transit, he invariably conceded that it might differ to an indefinite extent, and invariably reasoned under the impression that the difference subsisted; and it is the more singular that he should have failed to have formed a correct conception of the functions of money, as his great predecessor, whom he loved and admired, and whose political discourses he frequently cited, had already communicated to the public the regular gravitation of money to a level, which directly led to the conclusion that the same sum must every where express the same value, and by reasoning from facts to theory, to the immediate inference that money would be incompetent to answer the purposes of its institution, unless it constituted an uniform measure. But so little was he aware of this theory, that in the only part of his work where he alluded to the general (*a*) equivalency of money, and stated that the (*b*) removal of the prohibition on the export of specie in Spain and Portugal would raise the value of money in those countries to a level, or nearly to a level with its value in others, he repeatedly observed, that a particular degradation of its value might be effected in particular countries; or in other words, that the same

(*a*) See Wealth of Nations, Vol. 2, page 273.

(*b*) It is perhaps needless to remark, that the prohibition is wholly nugatory.

sum might measure in one country a less value than it measured in others. Little adverting, therefore, in the ground-work of his system to the real functions of money and the proportion of currency requisite in each country for the due discharge of the functions, he necessarily failed in the construction of his reasoning to explain the principle of limitation, and instead of asserting that no one nation could possess a greater relative currency than another, advanced the following inefficient propositions:

1st. That the (*a*) quantity of money in every country depends upon the power of purchasing. 2d. That it is (*b*) regulated by the fertility of the mines which supply the commercial world. 3d. That it is in (*c*) proportion to the effectual demand. 4th. That it cannot (*d*) exceed the sum which is necessary for the purposes of circulation. 5th. (*e*) That it cannot be accumulated beyond what the nation can afford to employ. 6th. (*f*) And that when the channel is full, what flows in must run out again.

These propositions I shall consider in their order; and first, If it be contended, that the quantity of money in every country depends upon the power of purchasing, an inference is implied, that what is purchased may be retained; for if it follow that the proportion which is bought must in the natural order of things be instantly re-exported, it cannot be said, that the power of pur-

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(*a*) See Wealth of Nations, vol. 1, page 372.
(*b*) See Wealth of Nations, vol. 1, page 372. (*c*) See vol. 2, page 149.
(*d*) See vol. 2, page 156. (*e*) See vol. 2, page 271.
(*f*) See vol. 1, page 436; vol. 2, page 158; and vol. 3, page 271.

chasing determines the quantity. If the aggregate sum in every state depended upon the amount received, Spain and Portugal would have detained the collective product of their American mines; but experience has uniformly demonstrated, that beyond a certain quantity, the efflux has been proportionate to the influx.

The second position, that the amount is regulated by the fertility of the mines which supply the commercial world, is only saying that the amount can never exceed the supply; but it is impossible to adduce this position to elucidate the nature of the limit in the common intercourse of trade, and explain the cause that prevents the currency of any one country from being wholly withdrawn and added to the currency of another.

In the third position, that the amount is determined by the effective demand, or "by the demand of those who are willing to pay the whole rent, labour, and profit, which must be paid in order to prepare and bring it to market," it is implied, in the same manner as in the first, that the payment of these expences secures its continuance, or it cannot be said to regulate its quantity. But it is well known, that banks of circulation have frequently made large purchases of specie at a price considerably above the sum that was necessary to discharge the whole rent, labour, and profit, which must be paid, in order to prepare and bring it to market, without any means of determining its quantity, or retaining it in circulation, as in the same degree in which they imported it at a loss, others exported it at a profit.

The fourth position, that the quantity of money can never be accumulated beyond the sum which is necessary for the purposes of circulation, implies that no increase can take place unless the existing sum be inadequate for the office : but if there could have been no augmentation beyond the sum which was necessary for the purposes of circulation, prices would have always remained the same ; as it is evident, that if the increase were effected to a sufficient extent to cause their elevation, it would exceed what was necessary ; but as it is apparent that prices have been in a gradual state of advancement for these last 500 years, it is obvious that there has been a continual increase of currency beyond the sum necessary for the purposes of circulation.

His fifth position is so singularly vague, that it is only necessary to notice it in order to shew the perplexity of his mind, and the versatility of his efforts to possess and elucidate the principle of the limit. He says " that the quantity of money can never exceed what the nation can afford to employ, or what the annual produce of its land and labour will allow it to employ ;" but as he does not attempt to explain by what means the sum which it is capable of affording is to be defined, the position is necessarily nugatory from its loose and indeterminate nature.

But the sixth position, that when the channel is full, what flows in must run out again, though a metaphorical allusion, was his chief resource ; as he seldom attempted to define the limit, without referring to a pond, a stream, a dam-head, or a channel, to express his meaning. In his

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general style Dr. Adam Smith was so eminently conspicuous for impressive simplicity, that it may be with truth affirmed, that he would not, in this particular instance, have accepted the aid of figurative language had he attained to a clear perception of the real principle. The image, however, which he adduced, contributed but little to illustrate the limitation; for though it may be said of water, that when the channel is full, what flows in must run out again, yet this effect is by no means correspondent to the nature of currency. A country may be said to possess a plenitude of circulation when there is a sufficient sum to maintain existing prices, but it does not therefore follow, that all further increase is impracticable, as an augmentation to any extent may be absorbed by a proportionate advance of prices.

These positions, therefore, were little calculated to convey a correct definition of the real principle which limited in all countries the amount of their currency, as they were either too indistinct to admit a determinate conclusion, or they supported the erroneous inference, that no increase of money could take place unless the existing amount were incompetent to discharge the office of circulation.

As they were inadequate, therefore, to establish the principle of a limit, they were of course inadequate to refute the theory of the balance of trade. The two tenets upon which he particularly relied for the foundation of his argument against this theory, were, that the quantity of money in every country was regulated by the effective

demand; (*a*) and that it could not exceed the (*b*) sum which was necessary for the purposes of circulation; but even if these positions were admitted, no conclusion could be drawn from them subversive of the theory; for as the first position goes no further than to prove that the supply is limited by the demand, without defining by what principle the demand is limited, it is competent to contend that a demand may have annually subsisted, to the whole amount of the excess of exports; and as in the second position he does not attempt to explain by what criterion the public could appreciate the sufficiency of the sum which was necessary for the purposes of circulation, it might in the same manner, as in the preceding instance, be contended, that an annual addition to the same extent had been necessary to render it sufficient, without the possibility of refutation, by any thing contained in his argument.

Had, however, his reasoning been more conclusive, had he rightly understood the functions of money, and discovered that no one nation could possess a greater relative currency than another, which would have been a decisive refutation of the theory, he possessed, no more than Mr. Hume, the necessary data to confirm the validity of his argument by practical evidence. The documents for this purpose have been since disclosed by the committees of 1797, and justify the inference, that the surplus of exports exclusively arises from foreign expenditure. But as Dr. Adam Smith had no means of access to the expla-

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(*a*) Vol. 2, page 149. (*b*) Vol. 2, page 156.

natory matter, which would have reconciled the surplus with his argument, he endeavoured, in the same manner as Mr. Hume, to erase it altogether from the question, by insinuating that the (*a*) "custom-house books were acknowledged to be a very uncertain criterion, on account of the inaccuracy of the valuation at which the greater part of goods were rated in them." But I have already explained, that though the custom-house returns afforded an erroneous criterion of the current value of the exports and imports, from the remoteness of the period when the tarif was fixed, they furnished the most satisfactory evidence of their relative proportion, and correctly announced the uniform fact of a vast superiority of exports.

This statement of Dr. Adam Smith's argument sufficiently accounts for the failure of his efforts to refute the theory of the balance of trade; for as he was incapable of defining the real principle which limited in all countries the amount of their currency, he was of course deficient in reasoning; and as he had no means of procuring the requisite documents to explain the cause of a constant excess of exports, he was necessarily deficient in facts: no impression was therefore made on the public mind that indicated a conviction of its fallacy.

But not only was the misconception of the real principle of the limit of money of fatal import in the particular argument which Dr. Adam Smith directed against the theory of the balance of trade; but it precluded the

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(*a*) Vol. 2, page 213.

possibility of a competent view or correct explanation of any one question that related to the subject of circulation through the whole work; for as it disqualified him from attaining to a just comprehension of the principles of exchange, it necessarily deprived him of the means of elucidating the appendant mysteries of the efflux and influx of money, and the fluctuation in the price of bullion; it likewise misled him in his consideration of the effects of a paper currency, and in the inquiry which he made into the depreciation of money.

I shall hereafter endeavour to shew that the course of exchange constitues the practical means, by which money is enabled to discharge its functions over the whole world as an uniform measure of value; and shall attempt to prove, that the fluctuations in the exchange exclusively arise from the efforts of the different individuals of different countries to reduce their respective currencies to the same relative amount for the purpose of maintaining the general equivalency. But so far was Dr. Adam Smith from reaching its governing principle, that he was even unacquainted with its practical effect, and doubted whether merchants were not erroneous in concluding that an (*a*) unfavourable exchange necessarily led to the departure of money.

As he knew not the cause of the variation in the exchange, he was of course incapable of elucidating the subject of the efflux and influx of money. It will be hereafter seen that the transit of money from one country

(*a*) Vol. II. page 145.

to another, is effected for the exclusive purpose of equalizing its value; that its efflux takes place upon a partial reduction of its value from excess, and its influx upon a partial augmentation of its value from deficiency. But Dr. Adam Smith observes only, that it is exported "when it (*a*) exceeds in amount what the annual produce of the land and labour can employ for the effectuation of exchanges;" but it has been already remarked, that the circulation of a country is not a fixed quantity, and can never be excessive for the transaction of exchanges, as it may be absorbed to any extent by a proportionate elevation of prices.

The same disacquaintance with the theory of exchange, which precluded a correct perception of the principle, that regulated the transit of money, precluded a just comprehension of the cause which governed the price of bullion. A long duration of the excess of the market price of money above its mint price, was attributed by Dr. Adam Smith, in common with all preceding writers, to the (*b*) debasement of the coin, and the inaccuracy of the mint proportions; but the occasional fluctuations in the price of gold and silver bullion he ascribed to the faulty speculations of the merchant importers, (*c*) "who," he said, "with all their attention, sometimes overdid the business and sometimes underdid it:" but in a subsequent part of this work I shall endeavour to shew, that the variations in the market price of money above and below its mint price originate in the same manner as the rise and fall in

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(*a*) Vol. II. page 17. (*b*) Vol. I page 63. (*c*) Vol. I. page 68.

exchange, and as the efflux and influx of money, in the interruption, which is given to the permanent establishment of a general level by the incidental employment of a greater or less relative currency by different countries; for as the casual variation in the relative quantity of their currency necessarily causes the same specific weight of gold or silver to measure in one country a greater or less value than it measures in another, it necessarily causes a greater or less quantity of the coin of the one to be given for the coin of the other, to reconcile the difference. The price of bullion, therefore, will uniformly be above or below coin, or the market price of money will uniformly be above or below its mint price, in the same proportion, in which a given sum abroad is of a greater or less value than a similar sum at home.

The erroneous opinion, which Dr. Adam Smith formed, that the general issue of paper made no addition to the aggregate circulation of the world, is attributable to the same misconception of the primary principles of his science. He says, (*a*) "that the whole paper of every kind that can easily circulate in a country can never exceed the value of the gold and silver of which it supplies the place, or which would circulate there if there were no paper, because it would be more than necessary to effect the exchanges which would otherwise have taken place." In this, as in the preceding position on the existence of a limit to the accumulation of money, in which he remarks, that its quantity can never exceed the sum which

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(*a*) Vol. I. page 448.

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is necessary for the purposes of circulation, the same inadvertency to the absorption of the superadded proportion by a commensurate elevation of prices again occurs. Had he, however, formed a more just conception of the functions of money, and constructed his inquiry on the basis of its constituting an uniform measure, he would have attained to the conclusion, that the issue of paper might be increased in any given country to any extent, provided that the currency of other nations were augmented in a similar ratio to preserve the equivalency. It is the impracticability of making the same sum express a different value, that imposes a restriction on the further increase of either money or paper in any particular country, and not the sufficiency of the existing stock for the purposes of circulation.

This conclusion, that the utterance of paper had no tendency to increase the aggregate amount of currency, prevented his perception of the rapid depreciation of money, which it occasioned. He well knew, that no depreciation could take place without a continual enlargement of the means of circulation; and as he was of opinion that the annual supply of bullion from America did not materially exceed the annual consumption, and that paper made no addition to the pre-existing stock, he necessarily drew the inference, that no (*a*) depression from the commencement of the preceding century had been effected; but it will be sufficiently shewn in a future part of this inquiry that the depreciation of money during the

(a) Vol. I. pages 310 and 328.

last century, in consequence of the universal circulation of paper, exceeded the depreciation of any former period of history.

From this outline it is evident that the leading errors of Dr. Adam Smith on the subject of circulation, exclusively arose from his inability to attain to a just perception of the functions of money. But though he failed to acquire a correct knowledge of these functions, he greatly contributed to the improvement of the science by the diffusion of more enlightened principles than had previously obtained. To Locke, (*a*) Davenant, and Sir James Steuart he was eminently superior; and if he reached not the extended views of Mr. Hume, he greatly surpassed him in consistency, justness, and precision of reasoning, as in most of the instances where he was least successful, he was rather inconclusive than erroneous, and rather fell short of the truth than deviated from it. But much as he contributed to enlarge the science, and much as its various tenets have been lately discussed, it must still be admitted to be wholly in its infancy: no satisfactory argument has been yet framed to effect the explosion of the old system, and no approximation to success has been made in the attempts to develope a new one; but whatever progress it may hereafter make, to whatever perfection it may attain, Dr. Adam Smith will ever be regarded the great founder of the economical school of England.

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(*a*) I wish not to detract from the great name of Locke, but on the subject of money he imbibed all the prejudices of his time.

# CHAPTER II.

## *On the Functions of Money.*

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MOST of the errors in the present commercial and financial system of Europe appear to me to have arisen from a mistaken opinion of the functions of money. In the familiar intercourse of society money and wealth have always been regarded synonymous terms; and as the principle that an increase of money constituted an increase of wealth seemed too obvious to the understanding to admit of investigation, the policy of this, as well as of every other country, has been exclusively directed to its accumulation, as the only means of advancing its opulence.

The fundamental positions which I shall adduce for the purpose of exposing the fallacy of this policy are these:

That an increase of the national stock of specie is an increase of currency and not of capital.

That an increase of currency is not an increase of wealth.

And that no one nation can possess a greater relative currency than another.

The exclusive utility of money consists in its properties as an universal measure of value, and an universal medium of exchange. As it forms the universal measure of value, every one estimates his capital by the quantity of money

which it is worth. A merchant affirms that he is worth forty thousand pounds, or an hundred thousand pounds, because there are no other means by which his capital can be estimated, and not because it actually consists of so much money. The person of landed or funded property always makes the same remark; and though from the quantity of currency in the country, and from the average demand for the capital which they possess, there exist a facility of their making the conversion at their option, yet at the time that they make the assertion they have not perhaps twenty pounds of cash in their possession. No individual, when he is asked the question of what he is worth, enumerates his lands, his houses, his stock, his mortgages, or whatever may be the nature of his property, but immediately mentions the sum into which the whole of his property may be converted, and unless he estimated it by this universal measure of value, he would not be understood.

It is this property, that constitutes the peculiar use of money, as it enables us to compute the value given and the value received, to ascertain the equivalency of exchanges, through the various relations of society; the wages of labour, the profits of stock, and the commercial interchanges between nation and nation, are exclusively estimated at their proportional value by this measure; but as it is impossible that money can form an accurate measure for these purposes, unless the same sum expressed every where the same value, I shall hereafter point out the means that are taken to effect its equalization.

It is this property that peculiarly adapts it for a medium of exchange; but as the only utility of the money is for the exchange, immediately that one capital, or some portion of a capital is sold, another is bought. No one keeps the money beyond the opportunity of making the conversion to most advantage. If any one were desirous of exchanging his estate in one county for an estate in another, for the purchase of government securities, or for the discharge of claims, the purchase money would be instantly applied to the purpose for which the exchange was made, and instantly re-appropriated to the general circulation of the country.

But from these united properties of money, as a measure of value and a medium of exchange, we usually affix the idea of the real possession of so much money when we talk of the capital of an individual, and so familiar is the custom, that we seldom advert to the specific property of which it actually consists: we even find it difficult to divest ourselves of the idea that it does not really consist of money.(*a*) The customary terms of conversation imply that we think more of the money than the money's worth; we say of a rich man, that he has a great deal of money, and of a person becoming so, that he is getting money, without adverting to the money as a measure of value, but thinking at the time that it actually constitutes the wealth of which we speak. From this familiar habit of expression we are inadvertently led to

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(*a*) See Wealth of Nations, Vol. II. page 131.

infer, that money constitutes the capital of an individual, and thence that it constitutes the capital of a nation.



When we speak of the commercial as the monied interest, an opinion is always implied that their capital consists of money; but though the capital of the merchant be more frequently converted into money than the capital of the land proprietor, yet in this, as well as in every other instance, recourse is only had to this medium for the purpose of enabling him to exchange his existing property into property of another shape with more facility: it is no longer retained in money than is correspondent with his interest; and as pending its continuance in this state there is a total suspension of profit, its detention is not likely to be of long duration. No capital is ever converted into this medium for the purpose of being permanently retained in a mass of money. Among the annals of domestic narrative two or three instances of an eccentric character are recorded, where a miserly being has converted his property into specie, and hoarded it in treasure for partial consumption as the paucity of his wants required: but I may venture to assert without any great probability of a violation of the truth, that no such character now exists, or at least the instance must be so rare, that it cannot be said to militate against the general conclusion that the capital of no individual in the country is retained in money.

I admit that the existing stock of specie at any given moment constitutes the capital, or a portion of the capital, of many individuals; but it is discharging the functions

of currency at the time that it forms them. The same money, which constitutes the capital of an individual merchant at one moment, in the space of a short time may constitute the capital of five hundred, and the comparatively small sum of ten millions may be capable of answering all the necessary purposes of circulation in a great commercial city, where the aggregate capital of the inhabitants may be of the value of a thousand millions, and may form by turns the capitals of all. Though large sums of money be necessary for moving the more important transactions of trade, their magnitude does not alter the nature of money and convert it into capital because it is occupied in circulating the materials of the merchant, when it is acknowledged to be currency in circulating those of the retail trader. The transit of large sums from hand to hand is as rapid in the city of London as the transit of smaller sums in the inferior transactions of the country village; and though they may constitute the capital of many individuals in their transit, they are not more stationary in the one instance than in the other. The detention of money in a state of stagnation for the formation of capital is obviously without foundation; no one would retain it for the improvement of his property, as money is incapable, like produce, of being worked into profit or exchanged to advantage, and no one would retain it for expenditure, as expenditure, however gradual, must eventually lead to its consumption.

If then it may be inferred from the foregoing observations, that all the specie existing in a country must be appropriated to the purposes of circulation; that it

constitutes the currency, and not the capital of a nation, it follows as a necessary consequence, that an increase of the national stock of specie must be an increase of currency.

I shall now, therefore, endeavour to prove that an increase of currency is not an increase of wealth.

Every individual is sensible that if he possesed so much money he could command so much produce, and if he possessed so much more money, that he could command so much more produce; and it may be naturally concluded, that what is true of an individual must be true of the collective body, and that an increase of money in a nation must be an increase of wealth. But as in an increase of currency all acquire in the same ratio, unless obstructed by existing contrasts, no one will be in a better relative situation than another; no one will receive a greater or less quantity, than that proportion, which is competent to maintain him in the same relative position in society. Mankind find out with ready facility, whether the money, which they obtain for their labour or produce can measure the same quantity, or command the same quantity of the necessaries and luxuries of life, which they have been accustomed to receive for it; their wages and their profits are the criterion of that quantity, and no one will submit to an alteration of the measure to his own detriment; no one will suffer his produce to be sold at the same price, when the produce of another is advanced, as it would confound the equality of exchange, and prevent the same quantity of money from being the measure of equivalency between the respective produce of the one and the

respective produce of the other, by making more of the one exchange for less of the other than previously to the augmented currency. The price of all things, therefore, soon becomes commensurate with the increase; and the existing relations between man and man are unalterably maintained in the same state, though all receive a greater nominal income. If there were a general increase of currency in this country to such an extent that all could receive as many guineas as they now receive shillings, no one would be in a better relative situation than he is at present. If the peasantry of the country received as many guineas a week as they now receive shillings, and the gentlemen of property received as many guineas a year as they now receive shillings, the gentleman and the peasant would still continue in the same relation to each other; and though guineas would be circulated as shillings, no one would receive more for his guinea than he now receives for his shilling. Money can be of no greater value than is the produce for which it will exchange, and if one piece of money would exchange for the same quantity as another, they must necessarily be of the same value. The livre in France was once circulated at the value of an English pound, and is now circulated at the value of an English ten-pence; but as it will now only exchange for a four-and-twentieth part of the value for which it would have formerly exchanged, no one is now richer in the possession of four-and-twenty than he would formerly have been in the possession of one. Four-and-twenty form the measure of value where one formerly sufficed, and all produce is now estimated at four-and-twenty, which was formerly estimated at one.

It is thus that a nation may be just as rich with a currency of five millions, as with a currency of fifty; the greater or less quantity is no criterion of its opulence. The wealth of a nation consists in the aggregate produce arising from its productive stock, for the interchange of which, between man and man, money forms only the measure of value; and whether five or whether fifty pieces constitute the measure for the same quantity of produce is of no consequence. If a nation raised more produce with a currency of five than with a currency of fifty, it would in proportion to the excess be more opulent; and in that case the five millions would be worth more than the fifty, as any given proportion of the five would exchange for a greater quantity of produce than a similar proportion of the fifty, and exchanging for more, would be of more value.

As money is exclusively appropriated to exchange, and does not participate in the nature of produce, which is grown for consumption, an increase of money retained for internal circulation has no effect like an increase of produce to augment the wealth of a nation: the greater the quantity in circulation the lower will be its standard as the measure of equivalency, the greater will be the quantity given in exchange between produce and produce, and the higher will be the price of all things: but as an advance in the price of produce, and a reduction in the value of money are convertible terms, an increase of money has no other effect than to cause its own depression. This effect was sensibly experienced in the reign of Elizabeth, when the remittances from America considerably

augmented the currency of Europe, and proportionally added to the specie of this country in common with the rest. But this increase had no other operation than to raise the price of produce, and augment the nominal incomes of all, without making any addition to their real opulence, as their incomes exchanged for no more subsequently to the increase than before it, and exchanging for no more, could be of no greater value. The leading characters of her reign were so well aware of this circumstance, that in the instance of leases from colleges a reservation was made of a third of the rent in corn, in order to prevent their impoverishment by the receipt of a fixed money rent from a further alteration of its value, which a further increase would have necessarily effected. The beneficial consequences resulting from this policy have been too repeatedly noticed by prior authors to require any comment from me.

Yet so familiar is the opinion that the quantity of produce in every country depends upon the quantity of money employed to raise it, that an increase of money has been invariably regarded as the exclusive means of effecting its augmentation. The want of money, or as it is more usually termed, the want of capital, has been esteemed by every nation the sole cause of its existing poverty, and has therefore constituted in every age the prevailing subject of complaint. To remedy this deficiency Mr. Law recommended the establishment of his land bank to the parliament of Scotland, which afterwards led, by the impolitic adoption of the Regent of France, to the fatal project of the Mississippi scheme; and to remedy this deficiency

the present extensive issue of paper in every part of the united kingdom is exclusively encouraged. But though the currency of Scotland have been augmented to three times the amount, which circulated during the æra of this unfortunate speculator, yet the same complaint of the want of money still subsists; nor, had it been increased to any given extent, would the clamour for more have been less urgent, as there must necessarily have been the same proportionate distribution of the augmented, as of the existing quantity, and consequently the same craving as at present for a further supply. It is not, therefore, the quantity of money that regulates the productive power, but it is the productive power that regulates the quantity of money. A nation is not rich because it has money, but it has money because it is rich: the money is the effect, not the cause of its wealth.

If it were true that the quantity of money in every country was proportionate to the quantity of currency employed to raise it, simple indeed would be the means of augmenting the wealth of a nation, as an indefinite extent of paper must necessarily lead to an indefinite extent of produce; but as the utility of money exclusively consists in forming the measure of value, by which all property is estimated, and the medium of exchange, by which one property is transferred for another, an increase of money has no other effect than to multiply the means by which these functions are fulfilled. If it could have operated to a proportionate augmentation of produce, prices, as I have already remarked, must necessarily have remained at a fixed standard through all ages, instead of

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having attained to an advance commensurate with the relative excess of money.

It has been frequently contended, that an increase of currency gives a stimulus to industry by the elevation of prices; but as the wages of labour are augmented only in proportion to the increase, and purchase no greater quantity of produce after the addition than before it, no greater stimulus can in reality exist, and therefore no greater effect is likely to be produced by the deception. The present condition of Spain is conclusive evidence that it does not necessarily conduce to national industry; nor are there any means by which it can have this result; for as all the specie retained in a nation must be appropriated to the purposes of circulation, if an increase of money be effected without an increase of produce, it must be occupied by the produce already existing, and make a proportionate advance in the price, without any power to augment the quantity. If our Cornish mines could produce annually a million of money, there is no doubt but that the proprietors would be the richer by the equivalent, which they procured; but no accession would be made to the wealth of the nation, as no equivalent could be provided unless the additional sum were exported for an additional produce. If it were retained for internal circulation, as it could obviously occasion no instantaneous increase of produce, and as it would not remain in a state of stagnation, till the proportionate increase were effected, it must necessarily be employed by the existing produce, and a partial rise would take place in the price of all things, unless an hundred times its value could be instantly procured, or whatever may be

the quantity of produce necessary for the occupation of such an increase of currency at the existing prices.

If, then, the currency of a nation be augmented to any extent, and retained for the purpose of internal circulation, no additional wealth would be gained, as any given proportion of the augmented currency would exchange for no greater quantity of produce than a similar proportion of the currency, that existed previously to the augmentation. There is, therefore, no foundation for the supposition that an increase of currency constitutes an increase of wealth.

But though an increase of currency retained for internal circulation do not constitute an increase of wealth, yet every country possessed of an augmented proportion unquestionably receives an accession to its opulence by the equivalent which it obtains upon its foreign remittance. The exclusive source, however, from which a nation can derive a permanently increasing stock of specie, is from the produce of mines, as it will be hereafter shewn that the customary course of trade will lead to the influx of no greater quantity than the sum which is necesary to maintain the general level of money. The American mines have certainly added to the wealth of Spain and Portugal in proportion to the equivalent received from the distribution of the proceeds among the other nations of the world; and though the world at large would have been equally rich had there been no conversion of the ore into money, as it is wholly immaterial whether its collective currency consist of two

hundred or two thousand millions, yet so long as these mines continue productive, from the instinctive tendency of money to gravitate to its level, the proprietors will continue to receive an increase of opulence according to the extent of the equivalent which its foreign remittance procures. From a misconception, however, of the principles of national wealth, the states of Spain and Portugal have uniformly endeavoured, to the utmost of their power, to retain the supply for their internal circulation.

But immediately that any one nation should collect to itself such a quantity of currency as to circulate its produce at a higher price than others, foreign produce would be attracted by the advance in its market, and take off the surplus; which leads me to an examination of the third position, that

No one nation can possess a greater relative currency than another.

There is the same exertion among nations as among individuals to maintain the uniformity of the measure of value, whether money be depressed or elevated by an increase or reduction of currency. I before observed that no individual in the same nation would submit to a material depression in the estimate of his labour or produce in any instance where he could procure a better market. If a general increase of currency were effected, neither the peasant nor manufacturer would sell his labour at one place for less, if by removing to another he

could sell it for more of the necessaries of life. He would naturally go, if no impediment obstructed his removal, where his labour was most highly estimated. This attention to individual interest has a direct tendency to promote an equalization of the wages of labour, and prevents their elevation at one place considerably above their standard at another.

The same attention to individual interest prevents any particular produce from exchanging at one place for more value than it does at another in the same country. As money is the measure of the value of other produce, which it is capable of procuring in exchange, the proprietor will naturally convey it where it will sell to most advantage. It is impossible that wheat could be at ten shillings a bushel at Oxford, and fifteen shillings a bushel in London; as long ere this difference existed, the wheat of Oxford would have been conveyed to London to equalize the price and rectify the measure of value. It is impossible, therefore, that any local rise can exist in the price of produce, or that any particular town or district can possess a greater relative currency than others in the same country, as it must necessarily create a partial rise. Wherever there was a tendency to this excess, the produce of remoter districts would be attracted by the advance of its market, and draw off the surplus currency. The disposition to buy cheap, as well as to sell dear, would make the possessors of the money as ready to part with it to their advantage, as the possessors of the produce to procure it for theirs.

The uniformity of the measure of value is thus maintained, and the same commodity is made to exchange for the same quantity of other produce in every part of the same country. Whether, therefore, currency increase or decrease, whether prices be advanced or depressed, money still maintains its attribute as a measure of equivalency. There must be a greater or a smaller number of pieces given in proportion as it is augmented or reduced; but the same number would, notwithstanding, be given in both instances for the same produce in every part of the country.

I do not mean to contend, that no difference can exist in the price of the same produce at any two distinct places; but that the general attention of all to their individual interest has a tendency to approximate it so nearly to an equality as to prevent much difference beyond the expense of conveyance. The difficulties of conveyance must always make a certain difference. In commodities that are either of great bulk, or are easily perishable, there must always be some variation, as there are no means of conveying them from the place where they are cheapest to the place where they are on this very account dearest, without great expense, and this expense must be necessarily included in the price. But as this difficulty is only experienced in a few commodities, and as all other produce, by the emulation of individuals to take advantage of a rise in the market, is nearly sold at par in every part of the kingdom, it follows, as a necessary consequence, that no one district can possess a much greater relative currency than another.

But for the same reason that no one particular town or district can possess a greater relative currency than another in the same country, no one nation can possess a greater relative currency than another in the world at large. If by a partial increase of currency in any particular country its prices were advanced above the prices of other nations, foreign produce would be attracted by the rise in its market, and draw off the surplus currency. In the commercial intercourse between nation and nation, money is in the same manner the measure of equivalency as in the domestic intercourse between man and man. The facility with which the reciprocal communication of nations is carried on has a necessary influence on the markets of all, and approximates the price of their produce to a general level. If it were found that a particular commodity could purchase only five pounds weight of silver at home, and could purchase six pounds weight of silver abroad, it would be naturally sent abroad for the most favourable exchange. Not only foreign produce would be attracted to the country possessing the redundant currency, in order that it might sell dear; but its money, notwithstanding the prohibition of government, would be clandestinely exported, in order that it might buy cheap. The same attention to individual interest, therefore, will cause the same exertion among nations as among individuals to equalize the value of money as the common medium of mensuration.

But there are two causes that operate in the commercial intercourse of nations to prevent a complete equalization of prices in the same produce—the difficulties of inter-

course on account of the distance, and on account of restrictions on the freedom of trade. The difficulties of intercourse from distance cannot create so great a difference in the circulable price of any given commodity in any two distinct nations, as to afford an extraordinary profit to the merchant who transported it out from one country to the other. The competition of nations has subsisted too long to afford any extravagant profit above the customary mercantile commission; but the disabilities of trade, arising from prohibition, may make an essential difference in the price of the contraband goods. During the late scarcities in this country, from the restrictive regulations which France adopted, the price of wheat in London was nearly double the price in Paris, which could never have subsisted had the freedom of intercourse been permitted: but though the difficulties of conveyance and the prohibitions of government create a necessary variation in prices proportionate to their extent, yet uninterrupted by these disabilities, the action of money, directed by individual interest, has an uniform tendency to make any given quantity of the same produce exchange for the same value in every part of the world.

In order to shew the impracticability of accumulating a currency in one country above the relative currency of another, it is only necessary to examine the effect which this attempt has produced in the instance of Spain: Spain has annually received from her American mines between three and four millions of pounds sterling for these last two centuries, and has made every exertion in her power to retain them for her internal circulation; but notwith-

standing her restrictive system, she now possesses, according to the estimate of Mr. Boetticher, only ten millions instead of six hundred; and if Mr. Fischer's account of the remarkable scarcity of her specie be correct, which from the extended issue of her paper there is reason to believe, even this sum is much exaggerated. The reduction of her vast supplies to this inconsiderable residue is exclusively attributable to the impracticability of obstructing the uniform gravitation of money to its level; for in every instance, in which it was perceived that she had a tendency to circulate her produce at a higher price than other nations, foreign produce was attracted by the rising market, and notwithstanding the vigilance of government, her specie was invariably exported, when it would exchange for a greater quantity of foreign than home produce. So long as there is no one, who would give a guinea for a commodity at home, which he could procure from abroad by paying only a shilling, all restrictions to compel a nation to retain its specie must ever prove totally ineffectual; the detention would have produced no other effect than the depreciation of its value, and to prevent this depriciation of their property, was as much the object of every individual in the country, as it was the object of its government to enforce it. The surplus, therefore of her currency, that excess, which would have enabled her to have circulated her produce above the general level, was annually distributed among other nations to make the same sum exchange in all for the same value.

If, then, the preceding observations be correct, it fol-

lows, as a necessary consequence, that no one nation can possess a greater or less currency than its due proportion, than that proportion which is competent to circulate its produce at par with other countries; that in whatever instance it should be augmented above this proportion, foreign produce would be attracted by the advance in its market, and take off the surplus currency; that in whatever instance it should be reduced below this proportion, foreign bullion would be attracted by the cheapness of its market, and supply the requisite addition; and that no permanent variation can be effected in the value of money to prevent its universal agency as a common measure of equivalency.

But as it may be said that this principle, however specious in theory, may not be practically true, I shall make some inquiry into the general uniformity of the prices of different countries for the purpose of confirming its validity, by the evidence of fact.

Mr. Arthur Young has more fully investigated this subject than any other author, and has pointed out with singular perspicuity the average prices of the different countries of Europe, according to the money and weight of England, in his Statistical Tour in 1790.

The average prices of England were, Beef per lb. 4*d.*

| | |
|---|---|
| Mutton | $4\frac{1}{2}$ |
| Veal | $4\frac{1}{2}$ |
| Meat average of the three, | $4\frac{1}{4}$ |
| Pork | 4 |
| Bread | $1\frac{3}{4}$ |

| | | |
|---|---|---|
| The average prices of France were, | Beef per lb. | $3\frac{1}{2}$ |
| | Mutton | $3\frac{1}{2}$ |
| | Veal | $3\frac{3}{4}$ |
| | Meat average of the three, | $3\frac{1}{2}$ |
| | Pork | $4\frac{1}{2}$ |
| | Bread | 1 |
| The average prices of Spain were, | Beef per lb. | $3\frac{3}{4}$ |
| | Mutton | $3\frac{3}{4}$ |
| | Veal | $6\frac{1}{4}$ |
| | Meat average of the three, | $4\frac{1}{2}$ |
| | Pork | $4\frac{1}{2}$ |
| | Bread | $1\frac{1}{4}$ |
| The average prices of Italy were, | Beef per lb. | $3\frac{1}{4}$ |
| | Mutton | $2\frac{1}{2}$ |
| | Veal | $3\frac{1}{2}$ |
| | Meat average of the three, | 3 |
| | Pork | $3\frac{1}{2}$ |
| | Bread | $1\frac{3}{4}$ |

These facts sufficiently manifest a general coincidence of prices; but the reasoning which Mr. Young has advanced (*a*) to elucidate their correspondence, reduces them in reality to a perfect identity, as he satisfactorily accounts for every variation in price by a proportionate variation in the quality of the produce. The extensive catalogue which he has prepared contains the estimate of

(*a*) For the prices of France see Mr. Arthur Young's Travels, Vol. I. page 441; for the prices of Spain, Vol. II. page 333; and for the prices of Italy, Vol. II. page 293.

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many other articles, in addition to meat; but I have the more particularly confined my statement to the price of this commodity, because, according to Sir George Shuckburgh's table, it more nearly approximates the mean value of money than any other. It may be satisfactory, however, to add the following estimate, in order to shew the correspondence in the rent and price of the land of this country and France.

| | | £. | s. | d. |
|---|---|---|---|---|
| The average rent of land in France, (*a*) per English acre, - - - - - | is | 0 | 15 | 7 |
| Average price per acre, - - - - | | 20 | 0 | 0 |

which make the average purchase of land 26 years. The average net profit he estimates at £3. 5*s*. per cent. He was of opinion that the rent, the price, the year's purchase, and the net profit of land in this country coincided in every particular with the preceding statement.

If the accuracy of this estimate be admitted, no doubt can be entertained of the general equivalency of money in the particular countries included in the enumeration. The testimony of Mr. Young, too, is the more conclusive, as he had no motive whatever to favour the uniformity, since from the little that had been taught of the real functions of money, the correspondence of the prices appeared to him an inexplicable mystery. So partial was his knowledge of the principles of circulation, that he acceded to the common opinion, that high prices were a test of prosperity; and as the general wealth of Italy, notwithstand-

(*a*) See Mr. Arthur Young's Travels, Vol. I. page 354.

ing the absence of manufactures and trade, enabled him to illustrate his favourite theme of the importance of agriculture above commerce, he adduced this criterion, among others, to attest her opulence. He says, (*a*) "It is worthy of the reader's observation that the general prices of provisions and of living, as it may properly be called, have risen as much in Italy as in any country of Europe, certainly more than in England, as I could shew by many details, if they were consistent with the brevity of a traveller. A fact of so much importance would admit of many reflections; but I shall observe only, that this sign of national prosperity, and I believe it to be one, is not at all confined to the countries in possession of extensive manufactures and a great trade, since we find it in those that have none. I shall not enlarge upon it, but barely hint, that the possessor of a landed estate in Lombardy has raised his rent to the full as much in the last ten, twenty, or thirty years, as his brother landlord in England."

High prices have been generally concluded to be a criterion of prosperity, from the evidence which they furnished of plenty of money; and as an increase of money was considered to be an increase of wealth, they were of course regarded as a decisive proof of augmented opulence. But high prices are in reality only a test that the aggregate currency of the world has increased in a greater proportion than its aggregate produce. There is no doubt but that the opulence of Europe was greatly

(*a*) See Mr. Arthur Young's Travels, Vol. II. page 301.

augmented during the preceding century; that its collective produce was superior in amount to the collective produce of any prior age; but had its wealth been in a state of decline instead of advancement, had its produce been diminished instead of increased, and its currency been, notwithstanding, enlarged in the same ratio, prices would have been raised to a still higher standard than they now are, as the aggregate amount of its currency would have exceeded in a still greater degree the aggregate amount of its produce. Had Mr. Young been aware of the principle, that increased prices were no proof of increased prosperity, he would not, perhaps, have contended for their partial elevation in Italy above the average of this country, as the previous enumeration by no means supported such an inference.

After the full and satisfactory evidence which this celebrated statistical work contains to substantiate the principle of the level of money, it might be deemed superfluous to cite any further authority, were it not necessary to verify its operation to the present period. The (*a*) Letters of Mr. Le Maitre, who visited Paris after the peace of Amiens, and who was strongly prepossessed with the opinion, so generally entertained in this country, of the relative cheapness of France, forcibly expose the fallacy of this sentiment, and vindicate the conclusion, that a given income in the one country will purchase no more of the necessaries and luxuries of life than the same income in the other.

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(*a*) See Letters 11 and 12.

Mr. Kotzebue, who was resident in Paris at the same time, and was no less impressed with the current sentiment of Germany, of the relative dearness of France, equally exposes the fallacy of this opinion, and says, that (*a*) "Paris was fully as cheap as Berlin, and considerably cheaper than Petersburgh." If the animadversions of these authors on the prevalent opinions of England and Germany respecting the cheapness and dearness of France be well founded, it necessarily follows that the prices of the three countries must be precisely similar.

The conclusion of Mr. Kotzebue, that Petersburgh was dearer than Berlin or Paris, it is impossible to admit, as the (*b*) evidence before the Secret Committees of 1797 only goes to prove that the prices of Russia had been advanced in the same ratio with the prices of this country. These authorities, combined with the preceding statement of Mr. Young, sufficiently attest the fact of the level of money in Europe; but its equivalency is not confined to Europe alone. Many individuals have quitted this hemisphere with the fond expectation of finding in America some propitious spot where the same income would afford the means of a more liberal expenditure; but Mr. Weld has expressed, in his interesting travels, their uniform disappointment, and satisfactorily explained, that the prices of the new world are invariably correspondent with the prices of the old.

But in the conduct of this investigation it is necessary

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(*a*) See Vol. II. page 300. (*b*) See Evidence of Mr. S. Thornton.

to advert to two circumstances, which may seem at first view to clash with the argument—the inferiority in the wages of labour, and in the military pay of the continent of Europe below the standard of this country. This variation may appear to infer that money does not, without some exception, discharge its functions as an uniform measure; but I shall endeavour to shew, that in every instance where the inferiority occurs, the labouring poor and the military receive a proportionate inferiority of subsistence; that the cheapness of the continent in these particulars consists in the privation, instead of the enjoyment of similar advantages; and that it is not, that money is inadequate to the fulfilment of its office, and constitutes in one country a particular measure for a greater quantity of the necessaries of life than it does in another, but that the poor of the continent are compelled, from the relative excess in their population, to submit to a less competent provision.

I have already observed, that Mr. Young has fully established, that if the meat and bread of France and England were estimated according to their respective quality, the prices of the two countries would be precisely at par: and I may venture to add, that the inquiries, which I have made of many of the English, who resorted to Paris after the peace of Amiens, and of many of the emigrants, who have resided in this country, decisively substantiate his conclusion. It was even stated to me by those, who appeared to have the fullest information, and to have considered the subject with most attention, that the very best meat and the very best bread of Paris were of a

superior quality to the finest of this country, and were, in consequence of this excellence, of a superior price; but the average state of the meat and bread throughout France was universally allowed to be considerably below the English standard.

Mr. Young says, (*a*) "Beef is in many parts of France exceedingly good and well fattened; better is not to be found any where than at Paris; and I have remarked elsewhere the great numbers of fine oxen fattened in Limosin in winter, and in Normandy in summer, for the Paris market. I think, therefore, that the beef of England, and of great cities in France, may very fairly be compared. It is not so generally good, perhaps, in the latter kingdom, but the difference does not demand attention; it is, however, very discernible in little country towns, where nothing is killed but old cows; and good beef is as rare as good mutton; whereas there is not a spot in England in which a private gentleman's family that resides in the country is not supplied with good ox beef. Veal, notwithstanding that at Paris from Pontoise, is much inferior; but the great inferiority of French meat to English, is in mutton, which is universally so bad in France, that I may assert very correctly, that from one end of the kingdom to the other I never saw a live or dead sheep, that would in England be called a fat one. In general, mutton is so lean that to an English palate it is barely eatable."

It is stated by the same author, that the bread of France

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(*a*) See Mr. Arthur Young's Travels, Vol. I. page 441.

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which is consumed by the labouring classes is principally made of buck wheat, barley and rye, and may be estimated on the average at a penny a pound. (*a*) "The bread of England," he says, "may be reckoned at $1\frac{1}{4}$ a pound;(*b*) but we must not therefore conclude that it is near double the French price, for the materials are not the same. In England the bread is very generally made of wheat, and the poor in many parts of the kingdom eat the whitest and best." The difference, therefore, in the market prices of the two countries is the most direct and satisfactory evidence that can be adduced to confirm the equivalency of their money; for if the inferiority in the quality of the meat and bread of France did not produce a proportionate inferiority in price, the same sum would measure in France a less value than it measured in this country, and the action of money would be imperfect.

According to Mr. Young, the average wages of labour in England in 1790 were 1*s.* $4\frac{3}{4}d.$ a day, and the average wages in France $9\frac{1}{2}d.$

| | | |
|---|---|---|
| (*c*) Labour in France, $9\frac{1}{2}$ | Meat | $3\frac{1}{2}$ |
| | Bread | 1 |
| | | $4\frac{1}{2}$ |
| Labour in England, 1*s.* $4\frac{3}{4}$ | Meat | $4\frac{1}{2}$ |
| | Bread | $1\frac{3}{4}$ |
| | | $6\frac{1}{4}$ |

(*a*) See Mr. Arthur Young's Travels, Vol. I. page 442.

(*b*) Mr. Arthur Young subjoins in a note, page 447, "There is no such difference as this in the average price of wheat; I apprehend no difference at all."

(*c*) See same author, Vol. I. page 447.

By this statement it is obvious that the wages of labour in England purchased nearly one-third more of English meat and English bread than the wages of labour in France purchased of French meat and French bread; and as the value of the produce should be estimated by its quality, which would reduce the money of the two countries to a level, the earnings of labour in England were 76 per cent. greater than the earnings of labour in France; or, as Mr. Young remarks, (*a*) "all those classes, which depended on labour in France, were 76 per cent. worse fed, worse clothed, and worse supported, both in sickness and in health, than the same classes in England;" and this opinion he afterwards confirms by a particular detail of the relative deterioration of their condition.

This inferiority, therefore, in the wages of labour below the level of this country, only proves that the commonalty of France are compelled to submit to a proportionate inferiority of subsistence, and by no means authorises the inference, which the variation in the market prices of the two countries might at first view appear to justify, that the same sum measured in the one country a greater value than it measured in the other.

The inferiority in the military pay of foreign nations has likewise led to the conclusion, that the same sum expresses on the continent a higher value than it expresses in this country, because the same number of men are

(*a*) See Mr. Arthur Young's Travels, Vol. I. page 447.

maintained at less expense; but the difference in the expense arises from the difference in provision and equipment, and not from the difference in the value of money. An English soldier receives a shilling a day, and lives upon the best meat and best bread, which his country affords. A French soldier receives four-pence a day, and lives upon the worst meat and the worst bread, which his country affords: and as the whole of his appointment, exclusive of his arms, which are equal to those of this country, is upon a parity with his subsistence, it is evident that the inferior expense of his maintenance arises from a privation of the advantages, which an English soldier possesses, and not from the competence of his four-pence to give him the same value in his own country, which a shilling expresses in this.

In whatever part of the world the same liberality should be manifested in the general appointment of a soldier, as is manifested in this country, the same sum would be requisite to carry it into effect, as is fully illustrated by the difference, which occurs in the charge of a British and Sepoy regiment in the East Indies. To maintain a British soldier, as he is maintained in this country, requires the appropriation of the same sum as it would require here; though the support of a Sepoy from the inferiority of his provision and equipment be effected at one-third of the expense. In every part of the world the difference in the subsistence is in an exact proportion to the difference in the charge; and the soldier of this country is elevated in condition above the soldier of others, by the whole amount of the superiority of his pay. Though, therefore, a given

revenue on the continent will support a greater number of men than the same revenue in this country, in consequence of the inferior appointment of a foreign army, yet no inference is deducible from this fact to shew that the same sum will represent a higher value. No conclusion can therefore be formed from the inferiority in the wages of labour and in the military pay of the continent of Europe below the standard of this country to clash with the general principle of the level of money.

If, then, it be manifest, both in reason and in fact, that prices are every where the same, it follows as a necessary corollary, that money discharges with fidelity and truth the functions of its office as an uniform measure of value over the whole world; and that the impracticability of a permanent violation of its level imposes a limit upon its partial excess in any particular country, and necessarily reduces the currency of all to the same proportion.

# CHAPTER III.

## *On the Course of Exchange.*

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HAVING in the preceding chapter attempted to prove, that the permanent continuance of a partial disparity in the value of money was inconsistent both with theory and with fact, I shall now endeavour to shew, that the course of exchange constitutes the practical means by which the equivalency is maintained.

A bill of exchange is an order for the receipt of a given sum of money in a foreign country, and must therefore be estimated according to the value of money in the country, upon which the order is given, and the value of money in the country where it is presented for sale. If it were practicable, that all countries could at all times accurately employ the same relative amount of currency for the establishment of the same uniform correspondence in price, and the same consequent correspondence in the value of money, the exchange between them would invariably be at par; but the increase of specie, from the fertility of mines, and the general publication of state and bank paper throughout the different countries of the world, the extent of which has hitherto been regulated by no fixed and determinate principle, occasion such a constant variation in the amount of their currencies from

the same uniform proportion, and such a constant variation of prices from the same uniform level, that the exchange between them is almost always fluctuating above or below par, for the purpose of rectifying their disproportion, and equalizing the measure of value.

When from either of these causes a partial augmentation of currency should be effected in one country to a greater extent than in another, as a proportionate advance in the price of its produce, and a proportionate reduction in the value of its money, would be the necessary consequence of the addition, the merchants of the two states would easily distinguish, from the average return of the sale of the produce, which they receive and remit, and from the uninterrupted correspondence, which they hold with each other, for the express communication of the current prices, that the same sum, the same specific grains of gold or silver, would no longer continue to express between them the same value. The holder, therefore, of a foreign bill upon the country where no increase had occurred, would naturally refuse to sell it in the state where the increase took place, unless he could procure the additional price, to which, from the alteration in the measure between them, he was entitled. If he sold it at par, he would sell it at a loss, as the sum drawn for would be worth more than the sum received. It would necessarily, therefore, be advanced in price, and sell at a premium commensurate with the difference. If by a partial augmentation of currency in this country £100. in London were worth no more than £95. in Hamburgh, as all produce which in Hamburgh sold for £95. would in this

country sell for £100., the holder of a bill upon Hamburgh for £95. would naturally refuse to sell it in the London market for less than £100., as the investment of its amount in Hamburgh produce for importation into this country would, from the superiority of British prices, return £100.

But in the same manner, in which the relative excess of currency occasioned a premium on a foreign bill, a relative scarcity would occasion a discount. If there were a partial diminution in one country to a greater extent than in another, as a less sum must be the measure of value for the same quantity of produce, than in the country where no variation had occurred, a foreign bill would fall in price, and sell, as it ought to do, at a discount, because a less sum would be of the same value with a greater in the place, on which it was drawn.

It is thus, therefore, that a bill of exchange is brought to a price correspondent with the variation in the value of money in the country, upon which it is drawn, and in the country, where it is presented for sale: but as the difference in the value of their money is in an exact proportion to the difference in the state of their prices, it is impossible that it can be correspondent with the variation in the one, unless it likewise be correspondent with the variation in the other; unless the premium on a foreign bill be precisely commensurate with the inferiority, and the discount on a foreign bill with the superiority of the prices in the place, upon which it is drawn. During the late variation in the exchange between Dublin and London,

according to the authority of the most respectable houses, when £115., or any given sum in Dublin, bought no more than £100. in London, all produce that cost £115. in Dublin was sold for no more than £100. in London, and all produce that cost £100. in London was sold for £115. in Dublin: the premium, therefore, on an English bill in Dublin was precisely commensurate with the inferiority of the prices of this country, and the discount on an Irish bill in London was precisely commensurate with the superiority of the prices of Ireland; the course of exchange between the two countries being nothing more than the amount of the difference in their respective prices. But the same principle which regulates the state of the exchange in one instance, regulates it in all; and between whatever nations, it will be uniformly found that the variation of their exchange is the variation of their prices: that £100. in one country is sold for £95. in another, only because £95. in the one commands the same quantity of produce as £100. in the other: that the exchange between London and Hamburgh is at any given moment five per cent. against London, only because the general prices at Hamburgh are at that time five per cent. lower than the general prices of London; or, in other words, because a given sum at Hamburgh is at that time five per cent. above the value of the same sum in this country: and that the exchange is at any given moment five per cent. in favour of London, only because the general prices of Hamburgh are at that time five per cent. higher than the general prices of London; or because a given sum at Hamburgh is at that time five per cent. below the value of the same sum in this country; the

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fluctuation in the state of the exchange being uniformly proportionate to the fluctuation in the state of their prices.

The course of exchange, therefore, affords an accurate criterion of the relative value of money over the whole world, and constitutes the instrument, by which the interchanges of trade between nation and nation are exclusively estimated. In the same country the same sum uniformly expresses the same value ; but in different countries the same sum, from the variable amount of their respective currencies, makes a slight deviation from par, and sometimes expresses a higher and sometimes a lower value. Unless, therefore, there were some means, that accurately marked the extent of the vibration, it would be impracticable to discriminate the equivalency of commercial transactions, and maintain the customary relations of trade. The course of exchange, by pointing out the respective value of money in the two countries, between whom the exchange is negociated, constitutes this instrument, and gives to the merchants of each a practical standard, by which the minutest difference is distinguished. By means of this standard all nations are enabled to continue their intercourse without the smallest interruption from the fluctuation, which the constant alteration in the relative amount of their currencies is constantly effecting in the value of their money, as the instant that the variation occurs it is announced by the exchange, and a credit given in conformity to the difference. If the course of exchange proclaimed a difference in the value of the money of any two countries to the extent of five per cent., the merchant who exported an £100. worth of produce

from the state, where the value of money was deteriorated by a relative excess, would receive a credit for no more than £95. in the country, where its value was partially elevated by a relative scarcity; and if a merchant exported £95. worth from the country possessed of the smaller proportion, he would receive a credit for £100. in the country possessed of the greater. In every instance, therefore, of a partial variation in the value of money, the course of exchange points out with appropriate precision the extent of the difference; and by affording an accurate criterion, by which each nation is enabled to estimate the value of its interchanges with the other, prevents the obstruction, that would otherwise ensue from the same sum not measuring in all the same exact value.

But though the course of exchange would distinctly mark the variation, as it occurred, from the smallest fraction to any given extent, yet the instant that the relative currency of one country should be so far increased above the relative currency of another, as to cause the bills, that were drawn upon it to be reduced to a discount beyond the charge of remitting the money from one to the other, they would be purchased by the bullion merchant, and invested in its surplus specie for the profit of exporting it to the state whose proportion of currency was relatively less. If the expense of remitting a given sum from one country to another were three per cent., a difference commensurate with this expense might always subsist in the value of their money; because, though the exchange would mark the variation, that the interchanges of their trade might be correctly estimated, yet no money would

pass from one to the other to reduce its value to a common level, as no profit would be attainable by its transit: but immediately that the bills which were drawn upon the one, were reduced to a discount of four, five, or six per cent. in the other, they would be purchased by the bullion merchant, and invested in specie for remittance, as a profit of one, two, and three per cent. would accrue from the conveyance. The charges of transit between London and Hamburgh are about two and a half per cent.; if, therefore, by a relative excess of currency in England the difference in the value of the same sum amounted to five per cent., and £95. in Hamburgh were worth £100. in London, as the course of exchange would mark the variation by a proportionate discount on English bills, a bullion merchant would purchase an £100. bill upon London for £95. in Hamburgh, and by procuring its investment in British specie, secure a profit to himself of two and a half per cent. by its import; and he would continue to purchase, till by the introduction of the surplus specie of England the value of money in the two states were reduced to a level with the charge of remittance. The course of exchange, therefore, not only operates to point out the variation in the value of money, when the difference is within the expense of transit, but it operates universally to prevent a variation beyond this expense.

In every instance, therefore, where a relative excess of currency caused the same sum to measure a less value in one country than it measured in others, the course of exchange would become unfavourable, and by leading

to the departure and general distribution of the surplus specie, maintain inviolable the level of money.

But a relative excess of currency may be caused in the same manner by the accumulation of paper as by the accumulation of specie: the negative of this position has been long maintained by high authorities; but its validity will hereafter be fully established upon the investigation of the causes of the depreciation of money, though the state of the exchange in those countries, where the utterance of paper has been pushed to an extreme, be alone conclusive evidence to attest its truth. Assuming, however, for the present, that the opinion is correct, I shall endeavour to shew, that whenever a relative excess of currency is occasioned by the over-issue of paper, the course of exchange will equally operate, as in the instance of an excessive utterance of specie, to counteract its influence, and cause the same sum, the same specific grains of gold or silver, to measure in all countries the same value, notwithstanding the efforts that almost every nation in Europe is making by this system to reduce its money to an inferior value.

Nor have the conditions, upon which the paper is issued, the remotest effect to check the equalization. If the paper be convertible into specie at the option of the holder, and a relative excess of currency ensue from its over-issue, the course of exchange will cause its return upon the banks that published it, till the same sum, till the paper expressive of a given weight of gold or silver,

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measure the same value as the same specific weight in other countries.

If the paper be not convertible into specie at the option of the holder, and a relative excess of currency ensue from its over-issue, the course of exchange will prevent the interruption, that would otherwise be effected in the general level, by maintaining the specie at the same value with the value of money in other countries, and reducing the paper to a discount in proportion to its excess, in proportion as it elevated the paper prices of the country, where it circulated, above the prices of other countries.

When by the over-issue of paper convertible at the option of the holder into specie, the same sum is made to express a less value in one country than it expresses in others, as the course of exchange will in consequence become unfavourable, and occasion a profit upon the remittance of its specie, the bullion merchant will return the paper upon the banks that uttered it, for a ready conversion into the requisite supply ; and they will persevere in returning it, till by the contraction, which they provoke they restore the currency to the same relative amount with the currency of other countries, and thus make any given quantity of its paper, expressive of a given sum, exchange for the same value as the same specific sum in others. In a subsequent part of this inquiry it will be shewn, that the unfavourable exchange, which naturally resulted from a partial redundance, constituted the exclusive check to the issues of the bank of England throughout

the whole of the preceding century, and prevented the publication of a greater sum than that proportion, which was adequate to circulate the produce of this country at par with the produce of others. The instant that an attempt was made to exceed this amount, the course of exchange repressed the effort, and gave an infallible standard for the regulation of its quantity.

So long, therefore, as the currency of a nation consists of a paper convertible at option into specie, no permanent excess can be effected, as the course of exchange will invariably prevent any given amount, expressive of a given sum, from measuring less value than the same sum in other countries, and present an insuperable bar to its increase beyond the correct proportion.

When the paper of a country is not convertible into specie at the option of the holder, and a relative excess of currency ensues from its over-issue, as it is not like specie qualified for exportation, nor like paper convertible into specie obnoxious to a forced contraction, the course of exchange has no other means of causing the same sum to express in that country the same value which it expresses in others, than to reduce it to a discount in proportion to its excess. If the paper, when relatively excessive in quantity, were to pass for the same specific grains of gold or silver, which it nominally expressed, a guinea in one country might measure no more value than a shilling in another, and a produce of inferior value in the one exchange for a produce of superior value in the other, to the inextricable embarrassment and eventual

obstruction of commercial intercourse: but immediately that from the over-utterance of this paper the same sum measured in the one country a less value than it measured in others, and the course of exchange proclaimed the difference by a proportionate discount on its bills, the bullion merchants would, as in the preceding instances, attempt the re-establishment of the level by converting the paper into specie for foreign remittance; and so long as the difference in the value of the same sum did not materially exceed the charge of conveyance, its paper would continue at par: but when the issue became so excessive as to cause an essential variation beyond this expense, individuals would no longer part with their specie at so cheap a price; they would naturally refuse to sell it, unless they could procure for it the same value, which they could obtain by its remittance abroad. But I before shewed that the price of a foreign bill was an accurate criterion of the value of money in the country upon which it was drawn, and distinctly demonstrated to what extent a given sum abroad would purchase a greater quantity of produce than a similar sum at home. Specie, therefore, would bear a premium commensurate with the premium on a foreign bill, and no longer participating in the degraded condition of the paper, would resiliate to its level, and be maintained at the same value with the value of money in other countries.

But in the same proportion in which a premium was affixed upon specie, a discount would be affixed upon paper; and as from the instant that the value of specie was separated from the value of paper two distinct prices

would necessarily be appointed for the same produce, a price in specie and a price in paper, it is obvious that the paper would be depreciated in the same ratio in which the prices for paper exceeded the prices for specie. But the prices for specie would continue on a fixed level with the prices of other countries, or the value of their specie could not correspond; paper, therefore, would be reduced to a discount in the same proportion, in which it raised the paper prices of the country where it circulated above the prices of other countries.

But as two distinct measures of value would be thus appointed in the country that uttered the paper, two distinct rates of exchange would be established by foreign nations for the bills that were drawn upon it, according as they contained an order for specie, or an order for paper. The rate for the orders payable in specie would never fluctuate to any extent beyond the charge of transit from par; for as the prices for specie would remain upon a level, a bill for so much gold or silver in the one would necessarily sell for the same weight of gold or silver in the others, as the same specific grains would measure in each the same value: but the rate for the orders payable in paper would continue to fall, as an increase of utterance caused a given quantity to recede more distantly from the value of specie; for as foreign merchants would be distinctly informed of the progressive advancement in the prices for paper above the prices of their own country, and the consequent inferiority of its value below the value of their medium, they would give a less and less quantity of their own money for the orders that were

payable in it, the discount on the bills being uniformly proportionate to the difference in the prices. But as the prices for specie would be every where on a level, the excess in the prices for paper above the prices for specie would be precisely commensurate with the excess in the prices for paper above the prices of other countries: the discount on the bills abroad, therefore, would invariably correspond with the discount on the paper at home.

The course of exchange would therefore operate, notwithstanding the excessive utterance of the paper, to maintain the level of money, and the same real uniformity of prices; for though the specie of the country where the over-issue took place would for a while partake of the fallen condition of the paper, and suffer a partial degradation, yet immediately that the depression exceeded in an inconsiderable degree the charge of remittance, its equivalency with the paper would cease, and its value resiliate to a general correspondence with the value of money in other countries; and though the prices for paper would bear a nominal superiority above the prices of other nations, yet as the paper would be reduced to a discount in proportion to its excess, and be divested of all value beyond the sum of specie, into which it was convertible, the superiority would be mere surplusage, and the same real uniformity would remain.

But in order to prove by the evidence of facts, that the specie of one country will invariably maintain itself upon a level with the specie of another, and that paper will be degraded to a discount in proportion to its excess,

in proportion as it elevates the paper prices of the country, where it circulates above the prices of other countries, it is only necessary to adduce the effect, which its late improvident publication occasioned in France and Ireland.

The following table will distinctly illustrate the progressive regularity, with which the discount on a French bill in London corresponded with the discount on French paper in Paris, from the first utterance of the assignats in 1789 to the commencement of the late war in 1793; and will clearly attest, that a given sum in English coin would purchase, during the whole period, no more than a similar sum in French coin, exclusive of the additional proportion, which was requisite to cover the expense and profit of remittance from that country to this, notwithstanding the unprecedented depreciation of the paper.

The same table will also confirm, that the paper of France was depreciated in proportion to the superiority of its paper prices above the prices of this country; for, as the excess in the prices for paper above the prices for specie is the measure of its depreciation, and, as I before shewed, that the difference in the exchange between any two given countries was the difference in their prices, that a premium on a foreign bill was in proportion to the inferiority, and the discount on a foreign bill to the superiority of the prices in the country upon which it was drawn, it is evident, that if the discount on the paper of France corresponded with the discount on French bills, the paper would be reduced to a depreciation in the same ratio, in which the paper prices of France exceeded the prices of

this country. If at the time that the excess in the prices for paper above the prices for specie amounted in France to ten per cent., the course of exchange between Paris and London manifested, by a correspondent discount on French bills, that the paper prices of that country were ten per cent. higher than the prices of this, it is obvious that the paper would be depressed in proportion to the variation in the prices; and as the subsequent statement will satisfactorily prove, that the discount on the bills was uniformly commensurate with the discount on the paper, it will fully attest that the paper of France was depreciated in the same ratio, in which it raised the paper prices of that country above the prices of others.

The whole of the table, for the sake of perspicuity, is reduced into English money. The first column shews the value in specie of a £100. assignat in London, or, what is the same thing, a bill upon Paris, containing an order for a depreciated assignat, that was nominally expressive in French coin of the same weight of silver which £100. sterling expresses in this country, and is calculated from Lord King's (*a*) statement of the exchange between the

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(*a*) Previous to the circulation of assignats, the course of the exchange between London and Paris, recorded in Lloyd's Lists and Castaigne's Papers, from which Lord King formed his statement, related only to the sum that was given in this country for an order on Paris for so much specie; but from the time that the value of the specie of France was separated from the value of paper, as paper became the more usual medium of payment and account, the course of the exchange, contained in their publication, exclusively related to the sum that was given in this country for an order on Paris for so much paper, and the exchange for

two countries. The second column shews the value in specie of an £100. assignat in Paris, during the same period, according to Mr. Vignetti's scale of the progressive depreciation of French paper.

| *The value in specie of an £100. assignat in London.* | | *The value in specie of an £100. assignat in Paris.* | |
|---|---|---|---|
| | £. | | £. |
| 1789. August, - | 94 | - - - - | 98 |
| September, - | 94 | - - - - | 98 |
| October, - | 94 | - - - - | 97 |
| November, - | 94 | - - - - | 96 |
| December, - | 90 | - - - - | 95 |
| 1790. January, - | 94 | - - - - | 96 |
| February, - | 91 | - - - - | 95 |
| March, - | 90 | - - - - | 94 |
| April, - | 86 | - - - - | 94 |
| May, - | 90 | - - - - | 94 |
| June, - | 92 | - - - - | 95 |
| July, - | 90 | - - - - | 95 |
| August, - | 91 | - - - - | 92 |
| September, - | 90 | - - - - | 91 |
| October, - | 85 | - - - - | 91 |
| November, - | 87 | - - - - | 90 |
| December, - | 87 | - - - - | 92 |
| 1791. January, - | 87 | - - - - | 91 |

specie was omitted. But it is evident, from the table, that the rate for specie was sometimes even in favour of Paris, and that the average variation did not exceed four per cent., which is an inconsiderable surplus above the charge of transit.

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| | *The value in specie of an £100. assignat in London.* | *The value in specie of an £100. assignat in Paris.* |
|---|---|---|
| | £. | £. |
| February, - | 85 | - - - - 91 |
| March, - | 86 | - - - - 90 |
| April, - | 85 | - - - - 89 |
| May, - | 82 | - - - - 85 |
| June, - | 79 | - - - - 85 |
| July, - | 76 | - - - - 87 |
| August, - | 79 | - - - - 79 |
| September, - | 75 | - - - - 82 |
| October, - | 78 | - - - - 84 |
| November, - | 78 | - - - - 82 |
| December, - | 73 | - - - - 77 |
| 1792. January, - | 65 | - - - - 72 |
| February, - | 59 | - - - - 61 |
| March, - | 52 | - - - - 59 |
| April, - | 59 | - - - - 68 |
| May, - | 59 | - - - - 58 |
| June, - | 59 | - - - - 59 |
| July, - | 59 | - - - - 61 |
| August, - | 58 | - - - - 61 |
| September, - | 67 | - - - - 72 |
| October, - | 62 | - - - - 71 |
| November, - | 67 | - - - - 73 |
| December, - | 69 | - - - - 72 |
| 1793. January, - | 58 | - - - - 51 |
| February, - | 50 | - - - - 52 |
| March, - | 51 | - - - - 51 |
| April, - | 41 | - - - - 43 |

These columns, therefore, satisfactorily shew, that in the same ratio in which a progressive reduction was effected in the value of French paper, a progressive reduction was effected in the value of French bills, that were payable in it; and clearly prove that the specie of the two countries was maintained at the same level, as the same weight of gold or silver was given for an assignat in London as was given for an assignat in Paris, exclusive of an average difference of four per cent., which naturally led to the influx of French money into this country; and it is particularly stated by Mr. Boyd, in his evidence before the Secret Committee, of 1797, that the remittance of specie from Paris to London formed at that time a lucrative traffic. But the inconsiderable excess of this variation above the charge of transit is conclusive evidence of the total impracticability of reducing the value of the specie of one country below the value of the specie of another to any extent beyond this charge.

They likewise establish the fact, that the paper of France was depreciated in proportion to the superiority of its paper prices above the prices of this country: for as they shew that the discount on the bills was invariably correspondent with the discount on the paper, and as the discount on a foreign bill is in proportion to the superiority of the prices in the country, upon which it is drawn, they fully manifest that the paper was depressed in the same ratio in which the paper prices of that country exceeded the prices of this.

The effect produced by the depreciated state of the

paper currency of Ireland forms another precedent to confirm the truth of this reasoning.

In 1799, when the course of exchange between Dublin and London evinced, by an extended premium on English bills, a greater reduction in the value of the same sum in Ireland than was sufficient to cover the expense of conveyance, the equivalency between its paper and specie was dissolved, and the specie was advanced to a premium correspondent with the premium on English bills, or, in other words, maintained at the same value with the value of money in this country, exclusive of the charge of transit. The following table (*a*) will distinctly shew, that the premium on English bills was progressively augmented in the same ratio with the discount on Irish paper through the whole period of the improvident circulation from 1799 to 1804, which necessarily proves, that the value of specie was maintained in both countries

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(*a*) During the time that the paper of Ireland maintained an equivalency with specie, the state of the exchange between London and Dublin, in Lloyd's Lists and Castaigne's papers, referred to the sum that was given in this country for an order on Dublin for either the one or the other, as both sold at the same price; but from the instant that the value of specie was separated from the value of paper, as the paper constituted in Dublin, in the same manner as in Parts, the principal medium for the transaction of business, the state of the exchange, inserted in their publications, related then only to the sum that was given in this country for an order on Dublin for so much paper, and the rate for specie was omitted. But the subsequent table will shew that the exchange for specie was on the average 14s per cent. in favour of London, which is about 4s. per cent. above the charge of transit, though in some instances it were even in favour of Dublin.

at the same level, as the same nominal amount of paper was given for a guinea in Dublin as for a guinea, or an order for a guinea, in London, exclusive of the expense of remittance.

The same statement will also prove, that the paper of Ireland was depreciated in proportion as it raised the paper prices of that country above the prices of this; for as it shews that the discount on the paper corresponded with the premium on an English bill, and as the premium on a foreign bill is in proportion to the inferiority of the prices in the country, upon which it is drawn, it necessarily demonstrates that the paper was reduced to a discount in the same ratio in which it raised the paper prices of that country above the prices of this.

| (a) *Premium in Dublin on English bills.* | | | | *Premium in Dublin on specie.* | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | £. | s. | d. | | | | £. | s. | d. |
| 1799. | Jan. | 0 | 15 | 10 | - | - | - | 0 | 15 | 0 |
| | Feb. | 0 | 18 | 4 | - | - | - | 0 | 15 | 0 |
| | March | 1 | 8 | 4 | - | - | - | 1 | 0 | 0 |
| | April | 1 | 10 | 10 | - | - | - | 1 | 5 | 0 |
| | May | 2 | 3 | 4 | - | - | - | 1 | 10 | 0 |
| | June | 2 | 5 | 10 | - | - | - | 1 | 15 | 0 |
| | July | 2 | 5 | 10 | - | - | - | 2 | 0 | 0 |
| | August | 2 | 8 | 4 | - | - | - | 2 | 10 | 0 |
| | Sept. | 2 | 10 | 10 | - | - | - | 2 | 15 | 0 |

(a) The premium here noticed is in addition to the £8. 6*s*. 8*d*. per cent. on British money.

| | Premium in Dublin on English bills. £. s. d. | Premium in Dublin on specie. £. s. d. |
|---|---|---|
| Oct. | 2 13 4 | - - - 3 0 0 |
| Nov. | 3 8 4 | - - - 2 15 0 |
| Dec. | 5 3 4 | - - - 2 15 0 |
| 1800. Jan. | 4 3 4 | - - - 2 10 0 |
| Feb. | 2 10 10 | - - - 2 5 0 |
| March | 3 8 4 | - - - 2 0 0 |
| April | 2 10 10 | - - - 2 0 0 |
| May | 2 3 4 | - - - 2 5 0 |
| June | 1 8 4 | - - - 2 0 0 |
| July | 1 10 10 | - - - 1 15 0 |
| August | 1 8 4 | - - - 1 15 0 |
| Sept. | 1 8 4 | - - - 1 15 0 |
| Oct. | 0 13 4 | - - - 2 0 0 |
| Nov. | 1 0 10 | - - - 1 15 0 |
| Dec. | 1 0 4 | - - - 1 15 0 |
| 1801. Jan. | 3 13 4 | - - - 2 0 0 |
| Feb. | 2 18 4 | - - - 2 5 0 |
| March | 3 18 4 | - - - 2 10 0 |
| April | 3 8 4 | - - - 3 0 0 |
| May | 6 3 4 | - - - 3 5 0 |
| June | 5 8 4 | - - - 3 10 0 |
| July | 5 13 4 | - - - 4 0 0 |
| August | 4 13 4 | - - - 4 10 0 |
| Sept. | 4 8 4 | - - - 3 0 0 |
| Oct. | 3 3 4 | - - - 2 10 0 |
| Nov. | 2 13 4 | - - - 2 5 0 |
| Dec. | 1 18 4 | - - - 2 10 0 |
| 1802. Jan. | 3 13 4 | - - - 2 15 0 |

| | *Premium in Dublin on English bills.* | | | *Premium in Dublin on specie.* | | |
|---|---|---|---|---|---|---|
| | £. | *s.* | *d.* | £. | *s.* | *d.* |
| Feb. | 3 | 3 | 4 | 3 | 5 | 0 |
| March | 2 | 18 | 4 | 3 | 10 | 0 |
| April | 3 | 18 | 4 | 3 | 10 | 0 |
| May | 3 | 8 | 4 | 3 | 0 | 0 |
| June | 3 | 3 | 4 | 2 | 15 | 0 |
| July | 3 | 8 | 4 | 3 | 0 | 0 |
| August | 2 | 18 | 4 | 3 | 0 | 0 |
| Sept. | 2 | 8 | 4 | 3 | 0 | 0 |
| Oct. | 2 | 5 | 10 | 2 | 10 | 0 |
| Nov. | 2 | 5 | 10 | 2 | 5 | 0 |
| Dec. | 2 | 8 | 4 | 2 | 0 | 0 |
| 1803. Jan. | 3 | 8 | 4 | 3 | 0 | 0 |
| Feb. | 3 | 13 | 4 | 3 | 0 | 0 |
| March | 4 | 3 | 4 | 3 | 15 | 0 |
| April | 4 | 13 | 4 | 4 | 5 | 0 |
| May | 5 | 3 | 4 | 4 | 10 | 0 |
| June | 4 | 18 | 4 | 4 | 15 | 0 |
| July | 6 | 8 | 4 | 6 | 0 | 0 |
| August | 8 | 8 | 4 | 8 | 0 | 0 |
| Sept. | 6 | 3 | 4 | 8 | 0 | 0 |
| Oct. | 6 | 3 | 4 | 7 | 10 | 0 |
| Nov. | 7 | 8 | 4 | 9 | 0 | 0 |
| Dec. | 7 | 18 | 4 | 9 | 0 | 0 |

(*a*) The statement of the exchange between Belfast and London during the same period satisfactorily attests

(*a*) 45—Irish Reports.

that the rate for specie never fluctuated from par to any extent beyond the charge of transit, which is about 10*s.* or $\frac{1}{2}$ per cent.

Whatever attempt, therefore, any given country may make by the over-utterance of paper, not convertible at the option of the holder into specie, to employ a greater relative currency than others, and thence effect a partial interruption in the level of money, the course of exchange will counteract the disparity, that would otherwise be effected, by maintaining the specie at the same value with the value of money in other countries, and reducing the paper to a discount in proportion to its excess.

But not only have different nations endeavoured by the accumulation of specie, and the publication of paper, to possess a greater relative currency than others; but they have frequently attempted by raising the denomination, or adulterating the purity of the coin, to make an inferior quantity of gold or silver express the same value, which a superior amount antecedently expressed: but as money is exclusively estimated by its weight, immediately that any country should effect such an innovation, the course of exchange would rectify the inequality by varying the par correspondent with the alteration, and by preventing the same specific grains from measuring more value than they measured before, still operate to preserve the level. No such innovation has, however, been recently adopted by any civilized nation, and it is necessary to refer to the Turkish government for an appropriate instance to substantiate the argument. In

1767 the Turkish piastre contained the same quantity of silver as 2*s*. 6*d*. English; (*a*) the par of exchange, therefore, between London and Constantinople was 800 piastres for £100. sterling; but as the piastre now contains no more than half the silver which it then possessed, the par of exchange has in consequence been altered to 1600 for the £100.

If, then, the prior reasoning of this chapter be correct, it is manifest that to whatever variety of artifice and ingenuity of speculation a nation may resort to effect a partial variation in the value of money, the course of exchange will not only announce the difference, for the purpose of preventing the inequality that would otherwise ensue in the interchanges of trade, but it will instantly apply the appropriate means to restore the equivalency. If the variation result from an excessive accumulation of specie, the course of exchange will immediately conduce to the removal of the surplus; if from the over-issue of paper convertible at option into specie, the course of exchange will enforce its return upon the banks that uttered it; if from the over-issue of paper not convertible at option into specie, the course of exchange will reduce it to a discount in proportion to its excess; if from an alteration in the denomination or purity of the coin, the course of exchange will strike a new par correspondent with the difference, and thus operate, in every instance to make the same sum, the same specific grains of gold or silver, measure in all the same value. It constitutes, therefore, the practical means by which money is enabled to

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(*a*) See Mr. Foster on Commercial Exchanges, page 93.

CHAPTER III.

discharge its functions with fidelity over the whole world as an uniform measure of value.

It has hitherto been generally conceived that the course of exchange exclusively depended upon the balance of trade, and that one could not be favourable without the other; but they have, in my opinion, no connection, and I shall endeavour to shew that the exchange may be favourable when the balance is adverse, and adverse when the balance is favourable.

If at the time that a large foreign balance should be due to a given country a relative excess of currency had occasioned a partial depression in the value of its money, and the course of exchange should, notwithstanding, attest that the value of money was highest where it was in reality lowest, and lowest where it was in reality highest, there would be no standard by which the equivalencies of commercial interchanges could be estimated. If at the time that a considerable balance was due from Hamburgh to London, an £100. in London were, through a relative excess of currency in this country, worth no more than £95. in Hamburgh, and the course of exchange should, in conformity to the principle that a favourable exchange is necessarily correspondent with a favourable balance, announce, on the contrary, that £100. was worth £105. in Hamburgh, it is necessary to suppose that a merchant at Hamburgh would give five per cent. premium for a bill upon this country, that ought to be at five per cent. discount, and that a merchant of this country would sell a bill upon Hamburgh at five per cent. discount that ought to be at five per cent. premium. If £100. in London

were really worth no more than £95. in Hamburgh, what cost £100. in London would really sell for no more than £95. in Hamburgh; it would be wholly inconsistent with reason, therefore, to suppose that a Hamburgh merchant would give £105. for a bill upon this country, which when invested in its produce and exported thither, would return no more than £95.; and if £100, in Hamburgh were really worth £105. in London, what cost an £100. in Hamburgh would really sell for £105. in London: it would, therefore, be no less absurd to suppose that a merchant of this country would sell for £95. a bill upon Hamburgh, which when invested in its produce and imported hither, would return £105.; the bills, therefore, in the two countries would necessarily bear a price correspondent with the variation in the value of their money. Since, then, the course of exchange is exclusively governed by the relative state of prices, or the relative value of money, in the different countries between whom it is negociated, it is obvious that it may be favourable, though the balance be adverse, and adverse, though the balance be favourable.

But it is contended by Mr. Thornton, (*a*) that a low value of money, or high prices, necessarily conduce to an unfavourable balance by encouraging importation, and thence occasion an unfavourable exchange, by causing the bills that are drawn upon the debtor state to be reduced to a discount from their consequent excess; and that a high value of money, or low prices, necessarily conduce to a favourable balance, by encouraging exportation, and thence occasion a favourable exchange, by

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(*a*) See Mr. Thornton on Paper Credit, page 201.

causing the bills that are drawn upon the creditor state to be raised to a premium, from their consequent scarcity. But I before shewed that no such encouragement and no such obstruction resulted in the commercial relations of different countries from any variation in the general state of their prices, as the course of exchange announced the disparity, and prevented the necessity of a casual interruption to re-establish their correspondence. The restoration of the level is effected by the bullion merchant without any concurrent effort from the other departments of commerce, whose transactions are in no respect influenced by the alteration. It is not, therefore, from the excess or scarcity of bills that they are in one country reduced to a discount, and in another raised to a premium, but it is because the same sum expresses in one country a greater or less value than it expresses in another, that they vary in price in proportion to the difference.

The position that a favourable or unfavourable exchange invariably coincided with a favourable or unfavourable state of commerce, originated in the sophistry of the theory of the balance of trade, which assumed, that the remittance of money at certain periods for the liquidation of a balance, was an inseparable incident from commercial intercourse; that there was a definite point, beyond which produce could no longer be given or received; and that the necessity of this transmission reduced the bills to a discount that were drawn for its payment, and gave a favourable exchange to the creditor state. But as this opinion implies, that notwithstanding the saturated state of any particular country, a further influx of specie may be still admitted to illimitable accumulation, and the

indefinite elevation of its prices above the prices of other countries, it is necessarily inconsistent with truth, as it would demonstrate the inaptitude of money for its office as an uniform measure of value. As, however, I shall hereafter shew that the theory of the balance of trade has no foundation either in reason or in fact, it would be superfluous to enter into a refutation of the effects that are supposed to result from it.

Little reference has hitherto been made to the relative value of money as the governing principle of the course of exchange by the different merchants, who have practically dealt in exchange, or the different authors, who have incidentally or more particularly written upon the cause of its fluctuation. An opinion, indeed, has for the most part prevailed with the commercial community, that the course of exchange determined the value of money, and not that the value of money determined the course of exchange; for as it was uniformly perceived, that when a bill upon a foreign country sold in any given state at a premium, foreign money or bullion was relatively dear compared to its own money, and when it sold at a discount, that foreign money or bullion was relatively cheap, it was naturally concluded that the variation in the value of their respective money proceeded from the variation in the value of the bills, and not that the variation in the value of the bills proceeded from the variation in the value of their money. But I have endeavoured to prove that it is because the same sum expresses in one country a greater or less value than it expresses in another, that the value of the bill varies, and not because the value of the bill varies that the same

sum can be made to express a different value. It was because the paper prices of France were superior to the prices of England, that a bill upon London sold at a premium, and not because a bill upon London sold at a premium, that the paper prices of France were superior to the prices of this country. The variation in the state of the exchange, therefore, is the effect, not the cause, of the variation in the value of money.

Of the authors who have written on this subject, Mr. Hume assumed, in common with others, that an unfavourable exchange was the necessary consequence of an unfavourable balance, and thence contended, that it became a new encouragement to export, for the purpose of preventing the remittance of money: but if it be said that high prices conduce to an unfavourable balance by giving encouragement to import, it cannot at the same time be contended that they occasion a rectification of the balance by giving encouragement to export.

(*a*) Sir James Steuart in the same manner attributed an unfavourable exchange to an unfavourable balance: he contended that the price of exchange depended upon the sum that was requisite for the purchase and remittance of a given quantity of bullion, that contained the same weight of gold or silver, which the debt that was to be discharged abroad contained in foreign currency; and as an unfavourable balance created a demand for the bullion to be so appropriated, it necessarily contributed to the

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(*a*) Vol. II. pages 5 and 25.

advancement of the price,(*a*) and made the exchange unfavourable; but it will be hereafter seen that the price of bullion in different countries depends upon the relative value of their respective currencies, and not upon its demand for remittance.

Nor can it be said that (*b*) Dr. Adam Smith was more luminous on this point than his predecessors, as he likewise admitted "that the ordinary course of exchange was a sufficient indication of the ordinary state of debt and credit." He took, indeed, as I have before observed, such little pains to inform himself either of its regulating principle or practical effect, that he even ventured to doubt whether the arguments which merchants adduced to prove th at an unfavourable exchange enforced the departure of specie, were not sophistical; and then, with a refinement of ingenuity, attempted to shew, that by operating as a tax upon foreign consumption it even had a contrary effect, and rather tended to diminish than increase the efflux.

The erroneous opinions, which these celebrated authors maintained on this important department of their science, necessarily precluded the deduction of a regular system of correct reasoning, to explain its subordinate branches.

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(*a*) See Sir James Steuart, Vol. II. from page 5 to page 25.
(*b*) See Dr. Adam Smith, Vol. II. page 214.

# CHAPTER IV.

*On the Fluctuation of the Market Price of Money above and below its Mint Price.*

CHAPTER IV.

As I attempted in the preceding chapter to explain the effect, which the uniform gravitation of money to its level produced on the course of exchange, I shall now endeavour to shew the effect, which it produces on the price of bullion.

There is no subject that appears to me to have given more perplexity to the statesmen of the last century than the fluctuation of the market price of money above and below its mint price; nor any one which, notwithstanding the efforts that were made by the ablest political writers to elucidate it, has been less satisfactorily explained. Mr. Locke, Sir Isaac Newton, and Dr. Adam Smith, successively bent their extraordinary powers to discover the governing principle of the variation; but from the inadequate view, which they took of the functions of money, of its characteristic attribute as an uniform measure, the real cause eluded their research.

As a general tendency to a relative excess of currency in this country occasioned a constant inclination in the market price to a superiority above, rather than an infe-

riority below the mint price; and as pending the excess there was much discontent from the melting of the coin, they directed their attention more to account for the superiority, than to account for the fluctuation, and took little pains to investigate how far the reasoning which they adduced to explain the advance above the mint price, was equally competent to explain the depression below it.

The two leading causes, which they assigned for the excess, were, the debased state of the coin, and the inaccuracy of the mint proportions. The debased state of the coin was assigned as one of the principal causes, because if the coin were below the mint standard, if £3. 17*s*. 10½*d*. in the gold coin, and 5*s*. 2*d*. in the silver coin did not in reality contain an ounce, it would be wholly inconsistent with reason to suppose that any person possed of an ounce would sell it for such a sum—an additional price must be given proportionate to the difference: but that if so much coin intrinsically contained an ounce, the market price would necessarily be reduced to a correspondence with the mint price, as it was naturally conceived that an equal (*a*) quantity of metal, whether in

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(*a*) Mr. Locke was so strongly impressed with this opinion, that he could not be brought to credit that an ounce of silver in coin could be of inferior value to an ounce of silver in bullion.

In answer to the author of "Remarks on a printed Paper sent in to the Lords," he says, "How standard silver should be worth its own weight in standard silver at the mint, (that is, 5*s*. 2*d*. an ounce) and be worth more than its own weight in standard silver, (that is, 5*s*. 4*d*. an ounce) in Lombard street, is a paradox that nobody I think will be able

coin or bullion, of a similar purity, must necessarily be of a similar value. But with whatever plausibility such an argument might be used to support the existence of a

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to comprehend till it be better explained. It is time to give off coining if the value of standard silver be lessened by it, as really it is if an ounce of coined standard silver will not exchange for an ounce of uncoined standard silver, unless you add 15 or 16 grains overplus to it, which is what the author would have taken on his word, when he says silver is worth 5*s*. 4*d*. elsewhere."

Again he says, "5*s*. 4*d*. coined at the mint, the author must allow to be at least 495 grains: an ounce is but 480 grains: how then an ounce of uncoined standard silver can be worth 5*s*. 4*d*. (that is, how 480 grains of uncoined standard silver can be worth 495 grains of the same standard silver coined into money) is unintelligible, unless the coinage of our mint lessens the value of standard silver."

But in answer to the observation of the author, that "silver yielding 2*d*. or 3*d*. more by the ounce than it will do being coined into money, there will be none coined into money, and matter of fact shews there is none," he expresses his incredibility in still stronger terms.

"It would be hard to know what the author means when he says, silver yields 2*d*. or 3*d*. more by the ounce than it will do by being coined into money, but that he tells us in plain words at the bottom of the leaf that an ounce of uncoined silver is of more value than after it is coined it will be; which I take the liberty to say is so far from being true, that I affirm it is impossible to be so; for which I shall only give this short reason—because the stamp neither does nor can take away any of the intrinsic value of the silver, and therefore an ounce of coined standard silver must necessarily be of equal value to an ounce of uncoined standard silver; for example, suppose a goldsmith has a round plate of standard silver just of the size, shape, and weight of a coined crown piece, which for brevity's sake we will suppose to be an ounce; this ounce of standard silver is certainly of equal value to any other ounce of unwrought standard silver in his shop; away he goes with his round piece of silver to the Tower, and has there

fixed and uniform excess above the mint price, it was but little appropriate to account for an inferiority below it, which though less frequent, sometimes occurred. It could not be contended, that when no one would sell an ounce of pure silver for 5*s*. 2*d*., because that sum, in the attenuated state of the coin, did not contain an ounce, every one would be desirous of selling it for 4*s*. 11*d*. or 5*s*., which contained still less. With a view, however, to a reduction of the excess, notwithstanding the fallacy of the argument, the coin was at two periods during the last century restored to its proper standard; the silver towards the close of the reign of William the Third, and the gold at an early period in the present reign: but in each instance the excess in the market price recurred as frequently, and to as great an extent subsequently to the reform, as before it. It is, indeed, asserted by Dr. Adam Smith, that since the re-coinage of 1774 no superiority in the market price of gold had been effected: the last edition of his work was published in 1783, and from the general accuracy of his statements I have no doubt but that in the intervening period no excess had taken place;

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the stamp set upon it; when he brings this numerical piece of silver back again to his shop coined, can any one imagine that it is now 2*d*. less value than it was when he carried it out smooth a quarter of an hour before, or that it is not still of equal value to any other unwrought standard silver in his shop? He that can say it is of 2*d*. less value than it was before it had the king's image and inscription on it, may as well say that 60 grains of silver brought from the Tower are worth but 58 grains in Lombard street."

As Mr. Locke was incapable of bringing his mind to admit the fact of this phenomenon, he was of course incompetent to elucidate its cause.

but it was particularly adduced by Mr. Bosanquet, in his evidence before the Secret Committee of 1797, that in the very year of 1783 there was a remarkable advance in the market price of gold above its mint price; and it is notorious that, with some occasional interruptions, the superiority has continued to the present time. I do not, however, mean to contend that the restoration of the coin to its mint standard, if it be debased and worn, is not a measure highly proper, and in the present state of our silver coin highly necessary; but much disappointment would ensue, if it were expected that from this restoration the superiority in the market price would be obviated.

The inaccuracy of the mint proportions was assigned as another of the principal causes of the excess, because it was contended, that if silver were estimated too low at the mint comparatively with gold, and too many shillings were given for a guinea, there would be a profit in converting the shillings into bullion to be sold for guineas, which were again to be exchanged for shillings to be molten and sold for the same purpose: and if silver were estimated too high at the mint comparatively with gold, and too few shillings were given for a guinea, there would be a profit in converting the guinea into bullion to be sold for shillings, which were again to be exchanged for guineas to be molten and sold in the same manner. The difficulties, which so long prevailed in the settlement of the mint proportions, exclusively arose from the perplexity of this argument: when it was found that the market price of silver exceeded the mint price, and that a given number of shillings in a state of bullion would

exchange for more gold in coin than the same number in a state of coin would do, it was thought that too many shillings were given at the mint for a guinea: when it was found that the market price of gold exceeded the mint price, and that a guinea in a state of bullion would exchange for more silver in coin than a guinea in a state of coin would do, it was thought that too few shillings were given at the mint for a guinea. But though it be true, that upon every excess in the market price of silver any given number of shillings in a state of bullion will exchange for more gold in coin than the same number of shillings in a state of coin will do, yet it by no means follows that a given number of shillings in a state of bullion will exchange for more gold in bullion than the same number in coin will exchange for gold in coin, which it is necessary to prove in order to establish an inaccuracy in the mint proportions; and in the same manner, when there is an excess in the market price of gold, though a guinea in bullion will exchange for more silver in coin than a guinea in coin will do, yet it by no means follows that a guinea in bullion will exchange for more silver in bullion than a guinea in coin will exchange for silver in coin, which it is likewise necessary that it should do in order to establish an inaccuracy in the mint proportions. But without any attempt to inquire how far the superiority in the market price of the one coin corresponded with the superiority in the market price of the other, it was inadvertently concluded, that when the market price of silver was excessive, too many shillings were given at the mint for a guinea; and when the market price of gold was excessive, that too few shillings were given at the mint for a guinea. According, therefore, to the

prevailing argument of the day in favour of the superior value of silver, or the superior value of gold, a guinea was sometimes current for seventeen or eighteen shillings, and sometimes for three or four-and-twenty, to the unceasing embarrassment of the public, till it was finally adjusted in 1717 at twenty-one shillings. Yet notwithstanding this adjustment, the excess in the market price of both still recurred to the same prejudicial extent.

It has, however, been since urged by (*a*) Lord King that this adjustment was inaccurate; and that if the guinea had been affixed at 20*s.* and 6*d.* instead of 21*s.*, in conformity to the opinion of Sir Isaac Newton, who was at that time master of the mint, the excess, which has since taken place in the market price of silver would have been wholly prevented. But with whatever colour of reason such an argument might be adduced to account for a constant and uniform superiority in the market price of silver above the mint price, it would be totally inapplicable to account for an inferiority below it. If at the time that the market price of silver was above the mint price, it were contended that too many shillings were given for a guinea, it could not, when the market price of silver was below the mint price, be contended, that too few shillings were given for a guinea.

Nor would it have been more appropriate to have adduced it for the purpose of explaining the superiority in the market price of gold; for if it were said that the

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(*a*) See Lord King, last edition, from page 138 to page 143.

market price of silver was excessive because too many shillings were given for a guinea, it could not at the same time be alleged, that the market price of gold was excessive, because too few shillings were given for a guinea. I no more, however, mean to contend in this argument than in the former, that the mint proportions should not be correctly regulated, if they be inaccurate, but the same disappointment would ensue, if it were expected, that in consequence of their rectification no excess in the market price would recur.

It is to the aggregate quantity of the currency of a country that we are to look, and not to the state and quality of its coin, for the real cause of the fluctuation in the market price of its money. It is to the great principle of the level of money that we are to refer for the solution of this as of almost every other mystery in which the science of financial economy has been hitherto involved; and I shall endeavour to shew, that upon every violation of this principle the variation will occur, notwithstanding the utmost possible purity in the coin, and the utmost possible accuracy in the mint regulations.

I attempted in the preceding chapter to prove, that when the level of money was partially disturbed, that when this country employed a greater relative currency than others, and caused the same sum to measure a less value than it measured in others, the course of exchange would mark the variation by a proportionate premium on foreign bills in our market, and a proportionate discount on our bills in the markets abroad. It would shew,

therefore, that a greater quantity of our coin must be given for a smaller quantity of foreign coin by the whole amount of the premium, and that a smaller quantity of foreign coin could purchase a greater quantity of our coin by the whole amount of the discount; foreign coin, therefore, would be dear in our market, and our coin would be cheap in foreign markets. But foreign coin and bullion are convertible terms: any given weight of bullion, therefore, would in this country be superior in value to the same weight of coin by the whole amount of the premium on a foreign bill, in addition to the charge of transit; and any given weight of bullion would in other countries be inferior in value to the same weight of coin by the whole amount of the discount on an English bill, exclusive of the charge of transit.

But this superiority in the value of the coin of other countries would not be confined to one metal only; their gold, their silver, and their copper, would be all dear, and all proportionally dear, as the same premium must be given in this country for a foreign bill that was to be invested in a given quantity of any of them. Nor would the inferiority in the value of our money be confined to one coin only, our gold, our silver, and our copper would be all cheap, and all proportionally cheap, as a bill for a given quantity of any of them might be purchased in foreign countries at the same discount.

In every instance, therefore, where a relative excess of currency caused the same sum to measure in one country a less value than it measured in others, not only would

the market price of its money be superior to the mint price, but there would be the same correspondent superiority in the market price of any one of its coins as in the market price of the others.

And in every instance where a relative diminution caused the same sum to measure a greater value in one country than it measured in others, not only would the market price of its money be inferior to the mint price, but there would be the same correspondent inferiority in the market price of any one of its coins as in the market price of the others.

If the exchange between Hamburgh and London were ten per cent. against this country, £110. must be given in London for every £100. of Hamburgh coin, and no more than £90. would be given at Hamburgh for every £100. of British coin: Hamburgh coin, therefore, would be dear in London, and British coin would be cheap at Hamburgh. But as foreign coin is in all countries denominated bullion, which is the technical term for all foreign pieces of money, as well as bars and ingots, bullion would be dear in London and cheap at Hamburgh; and the superiority in the price of Hamburgh coin would not be confined to one coin only, as £110. must be given in this country for £100. of any of them; and the inferiority in the price of British money would not be confined to one coin only, as £100. of any of them might be purchased in Hamburgh for £90.

Bullion, then, being dear in this country, and coin being

cheap, any given quantity of gold, or silver, or copper, in bullion, would exchange for a greater quantity of gold, or silver, or copper in coin, than a similar quantity in coin could do; but all bullion being dear in the same proportion, and all coin cheap in the same proportion, no given quantity of bullion would exchange for a greater proportionate value in any one coin than in the others. No given quantity of gold in bullion would exchange for a greater proportion of silver in coin than of gold and copper in coin, nor would any given quantity of silver in bullion exchange for a greater proportion of gold in coin than of silver and copper in coin.

If, then, the coin be assumed to be correctly correspondent with its mint standard, and if the mint proportions be assumed to be correctly accurate, that is, if a given quantity of gold in coin would exchange for no more silver in coin than a similar quantity of gold in bullion would exchange for silver in bullion, yet bullion being dear and coin being cheap, any given quantity of gold in a state of bullion would exchange for more silver in coin than the same quantity in a state of coin could do, and any given quantity of silver in a state of bullion would exchange for more gold in coin than the same quantity in a state of coin could do, or bullion could not be dear and coin cheap.

It is not, therefore, that the market price of our money exceeds its mint price because one of our coins is cheap compared with another, but because all our coin is cheap compared with foreign coin; because from the same sum

measuring in this country a less value than it measures in others, a premium must be given for the purchase of their money commensurate with the difference. But the imperfect conception which the political writers of the last century formed of the theory of money precluded their advertence to this distinction; they naturally conceived that any given sum of gold in coin of a given fineness must necessarily be of the same value with a similar weight of gold in bullion of a similar fineness; and that any given sum of silver in coin of a given purity must necessarily be of the same value with a similar weight of silver in bullion, of a similar purity; and they therefore imagined that when the market price of gold was excessive, notwithstanding the perfect correspondence of the gold coin with the mint standard, there was some inaccuracy in the mint regulations, which had allowed too small a proportion of silver for a given proportion of gold; and when the market price of silver was excessive, notwithstanding the perfect correspondence of the silver coin with the mint standard, that there must be a contrary inaccuracy in the mint regulations, which had allowed too small a proportion of gold for a given proportion of silver; and thence concluded that the one coin was cheap compared with the other, and that the one was molten and the other spared, instead of both coins being cheap together compared with foreign coin, both being molten at the same profit, and both disappearing at the same time.

It has not, however, at all times happened that the

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excess in the market price of the two metals has been precisely correspondent, but whatever difficulties their occasional disproportion may have added to the attainment of a satisfactory conclusion on this subject, the following statement of the average market price of each, from 1792 to 1803, will prove a sufficient correspondence, both in time and degree, to confirm the preceding argument. The market price of silver is extracted from Lord King's Tables, and the market price of gold from Wetenhall's papers. It is necessary, however, to observe, that either from the secrecy with which the purchases of gold bullion are effected, or from the circumscribed state of the market, these papers are not remarkable for the accuracy of their minutes respecting the price of gold, as I have sometimes noticed that they have minuted that "nothing was done," or that its price was "at par," when I have perceived from otherdocuments that it was at £4. A much more accurate account of the market price of gold for a given series of years might be procured from the books of the Bank of England; nor could the Directors urge any reasonable objection to its production.

| | GOLD. | | | | | SILVER. | |
|---|---|---|---|---|---|---|---|
| | £. | s. | d. | | | s. | d. |
| 1792. | 4 | 1 | 0 | - | - | 5 | 5 |
| 1793. | 3 | 17 | 6 | - | - | 5 | 1 |
| 1794. | 3 | 17 | 6 | - | - | 5 | 1 |
| 1795. | 4 | 0 | 0 | - | - | 5 | 3 |
| 1796. | 3 | 17 | 6 | - | - | 5 | 4 |
| 1797. | 3 | 17 | 6 | - | - | 5 | 1 |

| | GOLD. £. | s. | d. | | | SILVER. s. | d. | |
|---|---|---|---|---|---|---|---|---|
| 1798. | 3 | 17 | 9 | and £.4 | | 5 | 0 | |
| 1799. | 4 | 0 | 0 | | | 5 | 7 | |
| 1800. | 4 | 5 | 0 | | | 5 | 9 | |
| 1801. | 4 | 6 | 0 | | | 6 | 0 | and 6s, 1d. |
| 1802. | 4 | 3 | 0 | | | 5 | 6 | |
| 1803. | 4 | 0 | 0 | | | 5 | 7 | |

The subsequent calculation forms a table of comparison by which the correspondence may be ascertained. When the market price of silver is five shillings, the market price of gold should at a correspondent inferiority be £3. 15s. $4\frac{1}{4}$d.

| | s. | d. | | £. | s. | d. |
|---|---|---|---|---|---|---|
| When silver is at | 5 | 0 | gold should be at | 3 | 15 | $4\frac{1}{4}$ |
| - - | 5 | 1 | - - | 3 | 16 | $7\frac{1}{4}$ |
| - - | 5 | 2 | - - | 3 | 17 | $10\frac{1}{2}$ |
| - - | 5 | 3 | - - | 3 | 19 | $1\frac{1}{2}$ |
| - - | 5 | 4 | - - | 4 | 0 | $4\frac{1}{2}$ |
| - - | 5 | 5 | - - | 4 | 1 | $7\frac{1}{2}$ |
| - - | 5 | 6 | - - | 4 | 2 | $10\frac{3}{4}$ |
| - - | 5 | 7 | - - | 4 | 4 | $1\frac{3}{4}$ |
| - - | 5 | 8 | - - | 4 | 5 | $4\frac{3}{4}$ |
| - - | 5 | 9 | - - | 4 | 6 | 8 |
| - - | 5 | 10 | - - | 4 | 7 | 11 |
| - - | 5 | 11 | - - | 4 | 9 | 2 |
| - - | 6 | 0 | - - | 4 | 10 | 5 |
| - - | 6 | 1 | - - | 4 | 11 | $8\frac{1}{4}$ |

By this table it is manifest, that the market price of gold

nearly corresponded, both in time and degree, with the market price of silver, except in the year 1796, when gold was below the mint price, and silver above it, and in 1798, when gold was above the mint price and silver below it. So far as the price of bullion depends upon the relative amount of the currency of other countries compared with our own, it is obvious that there must be the same correspondent advance or depression in the market price of each metal, while their currencies maintain the same correspondent inferiority or superiority to our own: but as the amount of their respective currencies is necessarily subjected to variation, the exchange may at the same moment be favourable with a gold, and unfavourable with a silver market, and create a proportionate difference in the price of the two metals. But the price of bullion may in some degree be affected exclusively of the exchange by any sudden supply of the market; the price of gold bullion upon the arrival of a China fleet, and the price of silver bullion upon a Spanish capture.

If, then, the preceding observations in this chapter be well founded, it is obvious, that as in every instance of a greater relative amount of currency the utmost possible purity in the coin, and the utmost possible accuracy in the mint proportions, can have no operation to prevent the same sum from measuring in this country a less value than it measures in others; they can have no operation to prevent the superiority in the market price of our money, which exclusively arises from the necessity, which this redundance occasions of giving a greater quantity of our own coin for a smaller quantity of the coin of other

countries; and as in every instance of a less relative currency they can have no power to prevent the same sum from measuring in this country a greater value than it measures in others, they can have no power to prevent an inferiority in the market price of our money, which exclusively arises from the means, which this contraction affords, of purchasing a greater quantity of the coin of other countries with a smaller quantity of our own.

But though an excess in the market price of money may occur, notwithstanding the accuracy of the mint proportions, yet it by no means follows, as I before observed, that their proportions should not be correctly adjusted, as every irregularity, however trifling, reduces the coin, whose value is over-rated, to a partial depreciation, and prevents the respective metals from acting together in due correspondence as a common standard, and forming a perfect circulating system; the consequences of which I shall endeavour to explain in the ensuing chapter. But how far the subsisting regulations of our mint may be in conformity to the proportionate value of the respective metals in bullion, there are no documents by which the public can satisfactorily determine: the fact, however, may be easily ascertained by taking the evidence of the principal goldsmiths relative to the number of ounces of silver bullion for which an ounce of gold bullion has on the average exchanged during a given series of years in the great bullion markets of Europe, Cadiz, Lisbon, and Hamburgh. An opinion has certainly long prevailed that silver is estimated too low at our mint comparatively with gold, and that too many shillings are given for a guinea; and this opinion

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is strongly corroborated by the fact of a superior valuation in the mint regulations of France and Holland. As a pound of gold is in this country coined into 44 and $\frac{1}{28}g.$ convertible into 934*s.* and 6*d.* which, at 62*s.* the pound, weigh 15*lb.* 0*oz.* 17*dwt.* 10*gr.* it is estimated at 15 times and $\frac{1}{13}$ of its own weight in silver; though the pound of gold on the continent be valued at no more than 14 times and $\frac{1}{2}$ of its own weight in silver, which at our mint would be convertible into 900*s.* and would consequently reduce the guinea to 20*s.* and 2*d.* Should this estimate be found to be consistent with the proportionate value of the two metals in bullion, the reduction should be effected; but as there is no reason to conclude that the mint proportions of the continent are less liable to error than our own, the alteration should on no account be made without decisive evidence of their superior accuracy.

The incompetency of the statesmen of the last century to attain to the real cause of the disparity between the mint and market price of money, necessarily prevented the suggestion of an adequate provision to counteract it. The only measures which they attempted were the restoration of the coin to its mint standard, and the rectification of the mint proportions, which, though in themselves highly judicious and essentially necessary to the perfection of our circulating system, were wholly ineffectual to redress the grievance.

Dr. Adam Smith (*a*) has, however, contended "that if the silver were rated in the coin as much above its proper

(*a*) See Dr. Adam Smith, Vol. I. page 66.

proportion to gold as it is now rated below it, no excess in its market price would recur:" but it is the more singular that he should have argued in favour of this expedient, as he had but the instant before remarked that the market price of silver was *5s. 5d.*, *5s. 6d.*, and *5s. 7d.*, notwithstanding the guinea, on account of the attenuated state of the silver coin, exchanged for a much less quantity than its due proportion. The very measure, therefore, which he recommended was before him to convince him of the futility of his proposition, as the silver coin already circulated at a nominal value above the rise which he suggested, without any bar to the excess in its market price.

Dr. Adam Smith(*a*) also conceived, with Sir James Steuart, that the excess might be obviated by the imposition of a seignorage, from a natural conclusion that a duty on the coin would have the effect of advancing its value above bullion in proportion to the extent: but as the value of money exclusively depends upon its relative quantity, and as a seignorage can have no power to prevent a partial excess of currency, either by the produce of mines or the over-issue of paper, it can have no power to prevent the same sum from measuring in one country a less value than it measures in others, and therefore can have no operation to obviate a premium on foreign bills, and a consequent excess in the market price of money. A considerable duty has been long levied upon the coin in Spain and Portugal, yet the impost has had no effect to raise the value of their money above its value elsewhere

(*a*) See Dr. Adam Smith, Vol. II. page 336. See Sir James Steuart, Vol. II. from page 20 to page 29.

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when the proceeds of their American mines occasioned a relative excess in its quantity.

As the over-utterance of paper is the sole cause of the excess in the market price of our money, a contraction of the paper is the sole policy that can prevent it. So long as the present unlimited system continues, the superiority will recur as often as a relative excess of the paper causes the same sum to express in this country a less value than it expresses in others, and interrupts the general action of money as an uniform measure.

Since, however, the height, to which the impolitic augmentation of our paper has lately advanced the market price of our money, has caused the total disappearance of our gold, and the total debasement of our silver coin, it will be impracticable to effect a complete restoration of our circulating system without connecting with the contraction of the paper a new coinage; and as the existing regulations of our mint are wholly inefficient to protect the coin from a recurrence of the excess, I shall enter into a more detailed explanation of the effects, that result from it, for the purpose of pointing out the appropriate alterations.

When from a superiority in the market price of our money the quantity of gold which is contained in £3. 17*s*. 10½*d*. of our gold coin will sell in bullion for £4. 5*s*., and the quantity of silver which is contained in 5*s*. 2*d*. of our silver coin will sell in bullion for 5*s*. 8*d*., it is obvious, notwithstanding the illegality of the practice, that the coins which are correspondent with their mint standard will be consigned to the crucible, as a profit of

ten per cent. may be derived from their conversion. Pending, therefore, the duration of the excess, it has uniformly been found that the coins have disappeared; and as various difficulties were occasioned by the scarcity, attempts were made at different periods to reduce them to a debasement commensurate with the excess, for the purpose of preventing their conversion by a subduction of the profit; for if at the time that the market price of gold was £4. 5*s*. an ounce, the gold coin were so debased below its mint standard, that it required £4. 5*s*., to make an ounce, instead of £3. 17*s*. 10½*d*.; and if at the time that the market price of silver was 5*s*. 8*d*. an ounce, the silver coin were so debased below its mint standard that it required 5*s*. 8*d*. to make an ounce, instead of 5*s*. 2*d*., it is evident that the coins would continue in circulation, as no profit could be made by their transmutation into bullion.

But the attempt to debase the gold coin has less generally succeeded than the attempt to debase the silver. The Bank of England have uniformly shewn a laudable attention to this department of their duty, and have regularly rejected light guineas, unless a discount were allowed proportionate to their deficiency. The public offices and private banks were likewise in the habit of much attention to their legal weight while they continued in circulation; and so fully did this cautious supervision frustrate the attempts to effect their debasement, that by an experiment lately made at the mint under the direction of Lord Liverpool, scarcely any deficiency was apparent.

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But it was impracticable to evince the same jealousy respecting the silver coin. Paper has at all times been enabled to act as a substitute for gold, but no efficient means have hitherto occurred of providing a succedaneum for silver; and as considerable inconvenience at all times resulted from the difficulty of transacting inferior payments, the public offices and the Bank have invariably connived at the debasement of the silver coin in proportion to the excess in its market price, for the purpose of retaining an adequate fund in circulation for the wages of labour and the pay of the army and navy.

In the reign of William the Third, when the market price of silver rose to 6*s*. 5*d*., or £25. per cent. above its mint price, the silver was reduced to a proportionate debasement by the unskilful process of filing and clipping; but the more expert delinquents of the present day fabricate the complete coin, deducting only a sufficient quantity of pure metal to bring its weight to a correspondence with the excess, and cover the expense of fabrication. By an experiment which was at the same time made at the mint upon our silver coins, the deficiency in their legal weight was found to be as follows:

| | | |
|---|---|---|
| Crowns, - | 3 | per cent. |
| Half crowns, | 9 | |
| Shillings, - | 24 | |
| Sixpences, - | 38 | |

But as the preceding statement in this chapter shews that the market price of silver has occasionally advanced to 6*s*. 1*d*. or 18 per cent. above the mint price, it is evident

that the debasement of the shillings which compose the principal mass of our silver currency, and the excess in the market price of silver, have been nearly commensurate, the difference being little more than the expense of fabrication.

In Ireland, where the market price of silver has advanced to a greater height, the silver currency has fallen to a lower state of degradation.

But the debasement of the silver coin is not in all instances the necessary result of an excess in its market price: in America and in France, where paper was precipitated by the improvident publication of their government to an immediate and rapid depreciation, the silver coin, in common with the gold, forsook its value, and resiliated to a premium; but in this country, where our paper, though very constantly pushed beyond its due proportion, has never been excessive to a flagrant extent, and though very constantly depreciated below the value of the same sum in other countries, has never, but during the re-coinage of King William, proceeded to a discount, the silver has invariably participated in its value, and been reduced to a correspondent debasement according to the superiority of the prices of this country above the prices of others.

But this peculiarity in the silver coin in one country to maintain its purity and revert to a premium commensurate with the excess in its market price, and in another to be reduced to a proportionate debasement, only shews

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the singular flexibility with which the equivalent principle in money varies its means under different circumstances to the same end, and causes the same specific gravity of silver to measure in all the same value.

If this explanation of the effects of an excess in the market price of our money be correct, it is obvious, that if a new coinage were advised without any provision against the recurrence of the excess, no security could be given that the gold coin would not disappear, and that the silver coin would not be debased the very instant that the coinage was completed. But I before shewed that the over-issue of paper was the sole cause of the excess: the only effectual provision, therefore, that can be made against its recurrence is, that those who derive a profit from the publication of the paper should indemnify the public against the loss which is incurred by it; and if, as I shall hereafter recommend, the Bank be reinstated in the exclusive privilege which it long exercised of uttering paper, it is perfectly reasonable that they should exonerate the public from the charge of coinage, which they themselves have principally occasioned by transgressing the just limits of circulation.

It was formerly conceived that an open mint, by relieving individuals from the expense of coinage, would lead to the introduction of a greater quantity of money than would otherwise have been imported; and by the 18th Charles the Second, a duty was levied on wine for an adequate fund to cover the charges; but as it is evident that a free mint, from the very reasons for which it was

instituted, can have no effect to create a relative scarcity of currency, it can have no power to cause the same sum to measure more value in this country than in others, and therefore can have no operation to conduce to the influx of a greater quantity of money than would otherwise have come.

The advantages that have resulted from this liberality of our government have been exclusively confined to the Bank of England, who, upon every excess in the market price of our money, and consequent demand for specie, have remitted gold bullion to the mint to be coined at the public cost, for no other purpose than to feed the crucible of the goldsmith, as will hereafter be more fully explained: no just reason can therefore be urged for the further support of this burthen by the people at large.

Nor can any reasonable objection be urged by the Bank of England against the equity of the charge; for as the influence which they would possess over the general circulation of the kingdom by the exclusive privilege of uttering paper, would give them the means of regulating at will the market price of money, and enable them, by a competent contraction, to reduce the gold bullion to £3. 16*s*. 6*d*., and silver bullion to 5*s*., they would receive an adequate profit on the coinage to cover the mint expenses and the loss of interest by demurrage. The expense of coining 100 guineas upon Mr. Bolton's improved principle does not, I am informed, exceed 2*s*., and if 6*s*. or 8*s*. be allowed for interest during the time of fabrication, the whole cost would not amount to more

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than 10*s*. per cent.; but the gain of the Bank in purchasing gold at £3. 16*s*. 6*d*. and publishing it at £3. 17*s*. 10½*d*. an ounce, would be £1. 15*s*. 11½*d*. per cent. The expense of coining an £100. worth of silver would be about £2.; and if 15*s*. or 20*s*. be allowed for interest, the whole expense would not exceed £3., though the profit of the Bank in purchasing silver at 5*s*. and uttering it at 5*s*. 2*d*. an ounce would be £3. 6*s*. per cent.

But previously to the execution of a new coinage, it is materially worthy of the consideration of the public whether the size and substance of our coins should not be augmented. The existing shilling and sixpence, when correspondent with their mint standard, contain so small a quantity of silver, that they are easily susceptible of mutilation, and are incapable of admitting a bold embossment: but if the real value of the coin were raised one half, by adding to each a half more of the metal of which it is composed, by allowing to a guinea as much gold as is now contained in a guinea and a half, to a shilling as much silver as is now contained in 1*s*. 6*d*. to a sixpence as much silver as is now contained in 9*d*.; and to a halfpenny as much copper as is now contained in ¾, the size and beauty of our coins would be much improved.

Upon this alteration it would be necessary to proclaim that the new shilling should be a legal tender in all contracts where it would have been previously requisite to have given 1*s*. 6*d*.; and as it would in all instances command the same value which 1*s*. 6*d*. antecedently commanded, no dissatisfaction would be likely to arise from the

difference. But care should be taken that the new coins should not be denominated guinea-and-a-half pieces, 1*s.* 6*d.* pieces, 9*d.* pieces, and $\frac{3}{4}$ pieces, as it would convert the guinea, the shilling, and the halfpenny in the same manner as the pound into a money of account, and render our payments more complex. Not only indeed would it be impolitic to reduce the shilling in any future amelioration of the state of the coin to an ideal money, but it would be impolitic not to lower the guinea to a pound, according to its original designation, by a proportionate reduction of the quantity of its gold, in order that our payments may be still further simplified by converting the nominal into real money.

By this augmentation of the substance of our money, an edition of coins would be published of far greater excellence and beauty than the present division of the pound weight of gold into 44 guineas and a half, and the pound weight of silver into 62*s.* will allow.

# CHAPTER V.

*On Lord Liverpool's Letter to the King.*



IT may, perhaps, have appeared singular, that in treating on the fluctuation of the market price of money above and below its mint price, I should not have more particularly alluded to the letter which Lord Liverpool has addressed to the King on the coins of the realm: but as Lord Liverpool has long regulated the mint of this country, and been long regarded as conclusive authority on the relation which the respective coins bear to each other, his letter appeared to me to be peculiarly deserving of a distinct examination.

The principles of coinage which he has attempted to establish are,

That the coins which are the principal measure of property should be made of one metal only.

That the coins which are to be the principal measure of property in this kingdom should be made of gold.

And that the expense of fabrication should be taken out of the silver and copper coins.

An opinion has very generally prevailed among political writers that one metal has at all times more particularly constituted the ruling standard of value than another. It was formerly conceived that silver more particularly constituted the ruling standard than gold; but Lord

Liverpool has contended that gold has latterly more particularly constituted the governing standard than silver. It is certainly true that the two coins have not at all times constituted a common standard, and that one has occasionally obtained the superiority of mensuration over the other; but in every instance where the variation has occurred it has formed a defect instead of a perfection, and has arisen solely from the vicious construction of our circulating system.

So long as the mint proportions continue to be accurate, and the gold and silver coins continue correspondent with their mint standard, the one coin is not more the measure of value than the other; any given quantity of the one expresses its due quantity of the other, and all prices are regulated as much by the value of the one as by the value of the other; but in every instance, where a departure is made from the correct proportion which the respective metals bear to each other in bullion by the partial depreciation of one coin only, where by the partial depreciation of the gold currency, a given weight of gold in coin is made to exchange for a greater weight of silver in coin, than a similar weight of gold in bullion will exchange for silver in bullion, or where, by the partial depreciation of the silver currency, a given weight of silver in coin is made to exchange for a greater weight of gold in coin, than a similar weight of silver in bullion will exchange for gold in bullion, a given quantity of the one coin no longer expresses its due quantity of the other, and prices are no longer regulated so much by the value of the one as by the value of the other; for as individuals will refuse to part with their produce for a less value than

antecedently to the depreciation, prices will rise in proportion as it proceeds, and the deteriorated coin will invariably assume the superiority of mensuration.

A partial depreciation of any one coin, and a consequent departure from the proportion which the respective metals bear to each other in bullion, may be effected by the five following irregularities:

By an original inaccuracy in the mint adjustment.

By an inaccuracy subsequently growing out of the mint adjustment, from a gradual alteration in the value of the metal of which the coin is composed.

By an improper rise in the nominal value of one coin without a similar rise in the nominal value of the others.

By the debasement of a particular coin by the authority of government.

By the debasement of a particular coin by the illicit practices of the people.

The partial depreciation of a coin may be effected by an original inaccuracy in the mint regulations, which may assign a greater proportion of one metal to be given for another than their relative value in bullion directs; and it has been contended, that the mint regulations of 1717, when the existing proportions of our coins were established, were founded in error; that a given weight of gold in coin was made to exchange for a greater quantity of silver in coin, by two per cent., than a similar weight of gold in bullion would exchange for silver in bullion; and that our gold has consequently since formed the deteriorated coin. But though the opinion may be correct, that according to the relative value of gold to silver,

the guinea would have since exchanged for two per cent. above its due proportion had our silver currency been commensurate with its mint standard; yet as the uniform degradation of the silver coin, from the reiterated excess in the market price of our money, has rendered the mint adjustment wholly nugatory, and made the guinea invariably exchange for a less quantity of silver than its due proportion, instead of a greater, the silver has become the deteriorated coin instead of the gold.

The partial depreciation of a coin may, secondly, be effected by an inaccuracy arising subsequently to the mint adjustment, from a gradual diminution in the value of the metal of which the coin is composed, in consequence of a greater relative increase of its quantity. During the first eruption of the American mines, silver increased in a much greater proportion than gold; and it was found necessary to make a frequent revision of the established proportions, for the purpose of regulating them in conformity to the difference. Upon the accession of James the First, in 1603, (*a*) gold was worth no more than 10 $\frac{617}{682}$ times its own weight of silver; but upon the third year after the restoration of Charles the Second, it was found to be worth 14 $\frac{331}{682}$ times its own weight, which was a rise of 32 $\frac{56}{67}$ per cent. in the short space of 60 ars; but though correspondent alterations were the most part made in the mint proportions to meet the progressive depression of the silver, yet in the 17th year of (*b*) James

(*a*) See Lord Liverpool, page 53.

(*b*) See Lord Liverpool, page 61, and Leake on English Money, page 301.

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the First the rise in the gold coin was effected with too much precipitation; and as a given weight of gold in coin was then made to exchange for a greater quantity of silver in coin, than a similar weight of gold in bullion would exchange for silver in bullion, the gold for a short time became the deteriorated coin, and circulated at a discount; but as the fertility of the gold and silver mines has been supposed to be nearly proportionate from the commencement of the last century, no partial depreciation of either coin has taken place from a partial diminution in the value of the metal, of which it is composed. In 1717, gold was worth from 14 times a d $\frac{1}{2}$ to 15 times and $\frac{1}{2}$ its own weight in silver; and it is supposed to be worth the same at the present moment. The true proportion should, however, be found and observed.

The partial depreciation of a coin may, thirdly, be effected by an improper rise in its nominal value without a similar rise in the nominal value of the other coins. During the earlier period of our history, from the reign of William the First to Elizabeth, when the debasement of the silver coin was so frequently and imprudently advised, it wa customary to raise, in the same proportion, the nominal value of the gold coin; but in the reigns of Henry the Eighth and Edward the Sixth, when the debasement of the silver coin caused, in effect, so remarkable a rise in its nominal value, this precaution was omitted, and an (*a*) angel, which was a gold coin of the original value of 6*s*. 8*d*., passed at a premium of 200 per cent for 22*s*. The silver in consequence became the deteriorated coin.

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(*a*) See Leake, page 195; and Lord Liverpool, page 90.

The partial depreciation of a coin may, fourthly, be effected by the diminution of its weight, or adulteration of its quality, by the legal authority of the crown. This authority has not been improperly exercised since the reign of Elizabeth; but the debasements which the silver coin suffered previously to her reign, were a frequent subject of remonstrance by the people; and in those instances, as already noticed, where a nominal rise in the gold coin was not advised to a proportionate extent, the silver circulated at a discount commensurate with the difference.

The partial depreciation of a coin may, lastly, be effected by the clandestine and illicit debasement of the people. The two remarkable æras of the degradation of the silver coin by these means have been in the reign of William the Third and the present reign. The silver has consequently constituted at these periods the deteriorated coin.

In every instance where a partial depreciation is by any of these means effected, and a departure made from the correct proportion which the respective metals bear to each other in bullion, the degraded coin will necessarily usurp, from the proportionate advance of prices, the supremacy of mensuration; and not only will all produce take its value in reference to it, but the coin which has suffered no intrinsic depreciation will depart from its real worth and participate in the degradation, so long as it remains without resiliating to a premium to rectify the disproportion.

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The characteristic, however, of a degraded coin to form the prevailing standard does not so forcibly present itself to observation, till its deterioration be pushed to a sufficient extreme to force the respective coins to a separation of value; till the unaltered coin, forbearing to exchange for a less quantity of the deteriorated coin than its full proportion, than the proportion for which it exchanged antecedently to the alteration, resiliate to a premium commensurate with the difference; by which it is again enabled to assert its intrinsic value, and exchange for the same specific quantity of the degraded coin, which their respective relation in bullion prescribes. Upon this separation of value, and adjustment of a premium to the one coin, and a discount to the other, the prices for the one will necessarily become superior to the prices for the other. The prices for the unaltered coin will revert to the inferior state from which they had departed in consequence of the coalition of its value with the value of the degraded coin; and the prices for the degraded coin will remain without alteration at the point to which they had been elevated. But as the degraded coin, from its more familiar use in the common intercourse of trade, will more particularly constitute the money of account for the designation of the current prices, and from the relative inferiority of its value, will in all instances constitute the peculiar medium for the discharge of pre-existing claims, it will form more apparently the current and prevailing measure of value, when reduced to a discount below the stationary coin than when circulating at par with it.

In the reign of Henry the Eighth, and in the reign of

William the Third, (*a*) there was no peculiar property in silver that caused it, previously to its depreciation, to be more the standard of value than gold, as gold equally composed the lawful money of the realm, and equally contituted a legal tender. But as gold was at a premium and silver at a discount, all prices were designated by the sum that was given in the silver coin ; and as it was more for the interest of individuals, upon the fulfilment of their contracts, to pay in silver than to pay in gold, silver in all instances, more particularly gave the value than gold. Nor in the reign of (*b*) James the First was there any peculiar property in gold that caused it, antecedently to its partial depression, to be more the standard of value than silver ; but as silver was at a premium and gold at a discount, gold more particularly constituted the medium for the discharge of claims and designation of prices, and therefore in all instances more particularly gave the value than silver.

But though the degraded coin more forcibly present itself to our observation as the prevailing measure, when circulating at a discount below the superior coin, yet it does not the less constitute the prevailing measure, when it circulates at par, and reduces the superior coin to a temporary participation in its depression. Lord Liverpool (*c*) admits that in the reign of William the Third, when gold was at a premium and silver at a discount, all pro-

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(*a*) See Lord Liverpool, page 136.
(*b*) See same author, page 136.
(*c*) See same author, pages 140 and 141.

duce took its value in reference to the silver coin, and rose in price in proportion to its debasement; but he contends that as no separation of value has since occurred in this country, all produce now takes its value in reference to the gold coin, and experiences no advancement of price from the partial depression of the silver. But I endeavoured in the preceding chapter to prove, that an excess in the market price of our money clearly manifested that the prices of this country were superior to the prices of others, and that the coin of this country was inferior in value to the coin of others, by the whole amount of the surplus; and I at the same time attempted to shew, that the silver coin was invariably reduced to a debasement in proportion to the relative superiority of our prices, and the extent of the excess, in order that an adequate supply might be retained to defray the wages of labour, though all efforts to reduce the gold coin to a proportionate debasement had been uniformly frustrated. If these conclusions were correct, it necessarily follows that though pending the excess a given weight of our silver coin, in consequence of its debasement, exchanged for the same value for which a similar weight exchanged in other countries; yet that a given weight of our gold coin invariably exchanged for a less value than a similar weight in other countries. During, therefore, the circulation of the two coins at par, the gold coin participated in the deteriorated state of the silver coin, and exchanged for a less value than its intrinsic worth, instead of the silver coin having participated in the superior condition of the gold coin, and having exchanged for a greater value than its intrinsic worth. In every instance, therefore,

where the superiority in the market price of our money has occurred without causing the resiliency of the gold coin to a premium, not only has all produce taken its value in reference to the silver coin, and advanced in price in proportion to its debasement; but the gold coin has departed from its intrinsic worth, and equally participated in the degradation. The deteriorated coin, therefore, no less constitutes the prevailing measure, when circulating at par with the superior coin, than when reduced to a discount below it.

But whatever shew of reason the inseparable alliance of the two coins might have given in this country for the validity of the conclusion, that the silver coin partook of the value of the gold coin rather than that the gold coin partook of the value of the silver coin, yet had Lord Liverpool adverted to the existing state of the currency of Ireland, where all the circumstances have occurred, which harassed this country in the reign of William the Third, where gold is at a premium and silver at a discount; where all prices are designated, and all contracts discharged according to the value of a debased and adulterated silver coin, that participates in the degraded condition of the paper, instead of being marked and paid by the superior and stationary value of the gold coin, and where silver consequently usurps the supremacy of mensuration instead of gold, he would not so confidently have maintained that all produce now takes its value in reference to the gold coin, and experiences no advancement of price from the partial depreciation of the silver.

During the time that the paper of the Bank of England

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was convertible at option into specie, it was impracticable for the gold coin to separate its value from the value of paper, or the correspondent value of the silver coin, as it was impracticable to circulate the paper at a discount while the Bank was responsible to the holder for its value in specie; and though the caution, with which the Bank have regulated its issue since the restriction, have prevented the occurrence of an open and avowed premium, yet the unremitting exertion, which they have made, from their first institution to the present time, to push the circulation of their paper to the utmost extent, which their security would allow, has constituted the sole cause of the constant degradation of the silver coin, from the frequent excess, which it created in the market price of our money; and has, therefore, constituted the sole cause of the peculiar selection of the silver as the current measure of value in preference to gold.

But immediately that the partial depreciation in the silver coin shall be corrected, and the cause, which leads to it be removed; immediately that the two coins shall again be interchangeable for their full proportion of each other, and continue durably correspondent with their mint standard, which constitutes the perfection of a circulating system, they will again form a common and co-equal measure, without the slightest discrimination.

The conclusion, however, which Lord Liverpool has deduced, that one metal has at all times constituted the principal measure of property, was particularly supported by Mr. Locke, whose authority his Lordship is justly proud to cite in its favour. The opinion which Mr.

Locke entertained, that silver constituted the principal measure, was derived from the peculiar phenomena which the coin exhibited in the reign of William the Third; but as these phenomena have hitherto remained an inexplicable mystery, I shall endeavour to solve them, not only for a more detailed exposition of the grounds upon which Mr. Locke's opinion was founded, but for the general elucidation of the subject matter of this work. They appear to me to have naturally resulted from the principles, which I have endeavoured to establish, and to have been exclusively occasioned by the over-issue of paper; though I certainly possess not sufficient documents to give that full and satisfactory solution which the importance of such an investigation at the present moment, from the pressure of similar difficulties, requires.

It is stated by Davenant, that the utterance of paper was so considerable, "that rents and taxes were exclusively paid in it, and that the bulk of our trade at home was carried on almost without the shew of money."(*a*) This fact is corroborated by the testimony of Mr. Locke, who has recorded that the notes of a single goldsmith, who happened to be insolvent, amounted to £1,100,000. The general inundation was still further swollen by the institution of the Bank of England; and as pending the period of re-coinage, from 1694 to 1699, it restricted itself from paying in specie, it may be presumed, from the consequences which ensued, that an undue advantage was taken of this forbearance, not only by the Bank itself,

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(*a*) See Davenant's Discourses, page 38.

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but by the different goldsmiths who engaged in the issue of paper, as the various evils which infallibly attend the excess of its utterance were immediately apparent; a premium on gold, a discount on paper, a depression in the exchange, an excess in the market price of money, and a debasement of the silver coin. I have not, indeed, been capable of procuring the necessary details to prove that these different results of an over-charged circulation corresponded with each other with that precision which, consistently with the principles contained in this work, they ought to have done. But it may be collected from different authors that the premium on gold (*a*) rose, during a short period, to £50. per cent.; that the discount on (*b*) paper was twenty per cent.; that the depression of the (*c*) exchange with Amsterdam was £25. per cent.; that the excess in the (*d*) market price of our money was £25. per cent.; and that the degradation of the silver (*e*) coin was £25. per cent. I have, however, no doubt but that if an accurate account could be presented to the public of the progressive premium on guineas, the progressive discount on paper, the progressive depression in the exchange, the progressive superiority in the market price of money, and the progressive degradation of the silver coin, they would be found to have maintained a perfect coincidence. The material incongruity appears to have been between the

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(*a*) See Leake, page 338.
(*b*) See Dr. Adam Smith, Vol. I. page 480.
(*c*) See Dr. Adam Smith, Vol. II. page 216.
(*d*) See Leake, page 389.
(*e*) See Dr. Adam Smith, Vol. II. page 216.

premium on gold and the discount on paper; but this difference was evidently impracticable, as a premium upon the one necessarily implies a discount upon the other to a correspondent extent: the other effects were precisely commensurate.

These appearances, however, were attributed by the government and the people in the same manner as at present, to an unfavourable balance of trade, to foreign expenditure, to bad seasons, to the confusion of the times, to want of credit, to the imperfect state of the coin, and to any thing but paper: (*a*) £6,812,908. 19*s*. 7*d*. worth of silver was, therefore, coined at a charge and loss of £2,700,000. to redress the grievance, without any abatement of the real cause; and as the excess in our currency still continued, and with it the excess in the market price of our money, the £6,812,908. 19*s*. 7*d*. worth of silver was consigned to the crucible, and in the short space of 17 years not a shilling remained to attest the coinage.

This exposition of the state of the coin will satisfactorily explain the grounds, upon which Mr. Locke's opinion was founded, that silver constituted the money of account and measure of commerce; for as he perceived, that all prices were designated by silver, that the foreign exchange was calculated by it, that all contracts were paid in it, and that gold took apparently a variable value according to the fluctuation in its market price, he naturally concluded, that silver more particularly gave the value,

(*a*) See Lord Liverpool, pages 74 and 75.

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and formed the superior standard. But it is extremely singular that Lord Liverpool should have fixed upon this period as the precise æra, when gold became the governing standard; he says, (*a*) "that the high rate of the gold coin, to which the people then voluntarily submitted, can only be ascribed to the preference, which at that time began to be given to the use of gold coin in all payments, at least, of considerable amount;" but the people then voluntarily submitted to receive the guinea at £50. per cent. premium, for the same imperious reason for which they now submit to receive it at ten per cent. premium in Ireland. In every instance where they so submitted to receive it for the payment of a contract made antecedently to the annexation of the premium, they were defrauded of £50. per cent. of their legal claims; and surely it cannot be Lord Liverpool's meaning, that a landlord willingly submitted to the loss of half his income for the pleasure of receiving his rents in gold.

But though Lord Liverpool contended that gold began to form at this period the prevailing measure, notwithstanding that it constituted the superior coin, yet he subsequently contends, with more propriety of reasoning, that it has continued to be the prevailing measure, because it has constituted the inferior coin. He says, (*b*) "that though the guinea was reduced in 1717 to 21*s*. from 21*s*. 6*d*., it was still rated at a higher value than it ought to be, compared with the silver coins, by at least 4*d*. or 1 $\frac{9}{31}$ per cent.; and experience has proved that when

(*a*) See Lord Liverpool, pages 81 and 138. (*b*) Same author, page 85.

coins of two metals are made legal tender at given rates, those who have any payments to make will prefer to discharge their debts or obligations by paying in that coin which is over-rated." Had the fact been really correct, that from 1717 a given weight of gold in coin had exchanged for a greater quantity of silver in coin, than a similar weight of gold in bullion would exchange for silver in bullion, Lord Liverpool's conclusion that gold became from that period the governing standard would have been well founded. But I have already shewn that the fact has been directly otherwise, and that the partial depreciation of the silver by the illicit debasement of the people, has in reality made a given weight of gold in coin exchange for a less quantity of silver in coin, than a similar weight of gold in bullion would exchange for in silver bullion, which has necessarily reversed the mint adjustment, and communicated the superiority of mensuration to the silver instead of the gold coin.

The general inference, therefore, which Lord Liverpool, and all preceding authors who have incidentally treated on this subject, have deduced that the one coin has more materially constituted the ruling standard than the other in every period of our history, is only so far true, as the one coin has been partially depreciated below the other. But the particular inference, which Lord Liverpool has drawn, that gold has latterly become more peculiarly the prevailing measure than silver, is the direct converse of the truth. In every instance, however, where by the partial ascendancy of either, the two coins have ceased to form a common standard, it has constituted

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a defect instead of a perfection, and has exclusively arisen from the inconsistent construction of our circulating system, which has too frequently and too long allowed a departure from the correct proportion, which the respective metals bear to each other in bullion.

The first position, therefore, which Lord Liverpool lays down, that the principal measure of property should consist of one metal only, would be to establish this defect for ever.

The second position, that the principal measure of property in this country should be gold, would be to reduce the gold coin to the same state of partial depreciation with reference to the silver coin, to which the silver coin is now reduced with reference to the gold coin.

But the third position, which contains the means by which he proposes to carry the preceding principles into execution, and communicate the superiority of mensuration to the gold coin, singular as it may appear, would have an effect directly the reverse, and continue it for ever with the silver coin: this proposition is, to take the expense of workmanship out of the silver coin, and still allow the guinea to exchange for a less quantity of silver in coin than it will exchange for in bullion, which would still leave the silver the inferior coin, and consequently the superior standard. In the conduct of his argument Lord Liverpool has so fully admitted that the over-rated, and thence depreciated coin, constituted the prevailing measure, that it is impossible to account for his inadver-

tency in recommending an over-estimate of the silver, that must, by his own shewing, defeat his views.

In investigating the consequences of the measure he even himself seems aware that this effect might result, and he therefore suggests that the silver coin should be a legal tender for no more than 21*s*.

This precaution would, however, be wholly illusive. In the reign of William the Third, not a single piece could be selected from our silver currency that constituted a legal tender, as it was not correspondent with the mint standard, and therefore could not consist of the good and lawful money of the realm ; nor did paper then constitute, in any one instance, a legal tender, yet were all prices designated, all contracts discharged, and even the revenue paid in silver and paper, though government and annuitants were by these means defrauded of £50. per cent. of their legal claims, and though the only lawful money consisted of the gold coin. In the existing state of the currency of Ireland there is not a single shilling that would constitute a legal tender, nor is the paper of the Bank of Ireland a legal tender, further than to protect the person of the debtor from arrest in the first instance ; yet are all prices marked, all contracts paid, and all taxes collected in silver and paper, though a legal payment can be only made in gold, and though its government and land-holders sustain a loss of ten per cent. by their forbearance to demand it.

Nor in this country could the aggregate mass of our

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currency furnish a pound sterling of silver that would form a legal tender; nor does the paper of the Bank of England form a legal tender, further than to protect the person of the debtor from arrest in the first instance, yet all prices have risen in the same proportion in which silver has been debased, and all taxes and incomes are received in silver and paper, notwithstanding that a legal payment can be only made in gold.

As a relative excess of currency, by producing a superiority in the market price of our money above its mint price, is the sole cause of the degradation of the paper and the consequent degradation of the silver coin, and as the forbearance to make paper a legal tender has no power to prevent its over-issue, it can have no power, while the present unlimited system continues, to prevent the ascendency of paper and silver as the particular media of mensuration.

But the communication of the superior standard to the gold coin was not the only advantage which Lord Liverpool proposed to realise by the nominal rise in the silver coin: (*a*) he was in hopes of obstructing the disappearance of the silver, upon the recurrence of an excess in its market price, and of invariably retaining an adequate supply of legal currency for the transaction of inferior payments. But Lord Liverpool knew by his own experiments that the (*b*) deficiency in the legal weight of our shilling was

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(*a*) See Lord Liverpool, page 157.

(*b*) See same author, page 187.

24 per cent. If, then, the fabricators of our silver currency have found it necessary to reduce its weight 24 per cent. below the mint standard for the purpose of effecting its retention, Lord Liverpool's diminution of two and a half per cent. must of course prove totally ineffectual. It was shewn in the preceding chapter that the market price of silver had occasionally advanced to 6*s.* and 6*s.* 1*d.*, or nearly twenty per cent. above its present mint price; if, therefore, according to Lord Liverpool's suggestion, the mint price were to be raised no further than to 5*s.* 3½*d.*, or two and a half per cent., it is obvious that the whole of his coinage would disappear when the market price again advanced to 5*s.* 7*d.* and 5*s.* 8*d.*, as under the existing system of our paper currency has very constantly occurred.

The only means, as I have already observed, of maintaining a perfect circulating system with equable powers of mensuration, is to reduce the excess in the market price to a level with the coin by a contraction of the paper which occasions it, and not by innovating expedients to raise the nominal value of the coin to a level with the excess.

The cause of Lord Liverpool's failure to explain the principles of coinage, originated in the narrowness and inefficiency of his first principles; for though he endeavoured with peculiar propriety to construct his essay upon them, yet as he formed them upon too limited a scale for prospective application, he was incapable of recurring to them in the conduct of his argument for an

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unerring direction to an accurate conclusion. The fundamental positions which he adduces are these :

(*a*) That the money or coin of a country is the standard measure by which the value of all things bought and sold is regulated and ascertained.

And it is itself at the same time the value or equivalent for which goods are exchanged, and in which contracts are generally made payable ; and he subjoins in a note, " as this definition of money, though not always so accurately expressed, is given by all authors, from Aristotle to the present time, there is no need of any particular quotation." But notwithstanding that Lord Liverpool, and all preceding authors from the age of Aristotle to the present time, have concurred in the opinion that it was the peculiar property of money to be a measure of value, yet neither Aristotle nor Lord Liverpool conceived it to be a necessary consequence of this property that it should be an uniform measure, and that the same sum should every where express the same value. Constructing his essay, therefore, upon the supposition, that the same sum might express in all countries a different value, he necessarily drew erroneous inferences in every instance where the consequential attribute of money, as an uniform measure, was affected.

This inadequate conception of the functions of money precluded Lord Liverpool, in the same manner as it pre-

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(*a*) See Lord Liverpool, page 8.

cluded all prior authors, from solving the apparent paradox, that an ounce of gold or silver in coin of a given fineness might occasionally be of a different value from an ounce of gold or silver in bullion of a similar fineness, and reduced him to the necessity of concurring in the opinion, which Mr. Locke has so forcibly expressed, (*a*) "that an ounce of silver, whether in pence, groats, or crown pieces, stivers or ducatoons, or in bullion, is and always eternally will be, of equal value to any other ounce of silver, under what stamp or denomination soever." This opinion Lord Liverpool has asserted to be an undoubted and incontrovertible truth; but had he, in the first instance, taken a more comprehensive view of the theory of money, and attained to the conclusion that the same sum should every where measure the same value, must uniformly gravitate to its level, he would have fully understood that an ounce of gold or silver in the coin of one country might, from an occasional variation in the relative amount of their currency, express at a given moment a greater or less value than an ounce of gold or silver in the coin of another; and therefore, that an ounce of gold or silver in bullion might be sometimes worth more and sometimes less than an ounce of gold or silver in coin.

His incompetency to refute this opinion of Mr. Locke has subjected him to the singular imputation of having written a book to remedy a grievance, the existence of which he has denied. The only practical alteration, which he has recommended in the present system of our coinage

(*a*) See Lord Liverpool, page 76.

he expressly recommended for the purpose of preventing the disappearance of the silver currency, whenever it should happen that an ounce of silver in coin should be inferior in value to an ounce of silver in bullion; and yet in the commencement of his argument on this point he contends that their inequivalency is totally impracticable.

The same limited conception of the functions of money which precluded him from explaining the paradox of the inequality in the value of coin and bullion, precluded him from explaining the just cause of the efflux and influx of money.(*a*) He says, "Mr. Locke, (*b*) and many other writers, have clearly demonstrated that the coins of any country can only be retained within it, when the general balance of commerce or payments is not unfavourable; and that they will necessarily be exported when the value of the whole of the merchandize imported exceeds the value of the whole of the merchandize exported in order to pay the deficiency. If, indeed, the goods so imported are only an unusual quantity of stock intended for re-exportation, and not to be used or consumed in the country, it is certain, that upon the sale and re-exportation of such stock, the coins will in due proportion again return,

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(*a*) See Lord Liverpool, page 109.

(*b*) I know no edition of Mr. Locke's works in which this demonstration is contained. The only observations, which I have noticed, that he has passed on this subject relate to the indefinite accumulation of money, as an inexhaustible fund of riches, and evince a manifest misconception of the theory of money. The only other author of eminence, who has supported the theory of the balance of trade, is Sir James Steuart, upon the imbecility of whose argument I have already commented.

or a quantity of bullion sufficient to replace them. These principles are indeed self evident."

If these principles be self evident, I know not upon what grounds Lord Liverpool has estimated the aggregate stock of our specie at so inconsiderable a sum as £30,000,000., since it is obvious from the public returns that the value of the merchandize exported has exceeded the value of the merchandize imported during these last forty years, according to the official rate, 160,000,000, and according to the current value, above 300,000,000; and as he admits no other cause of the efflux and influx of money, it is impossible to figure upon what principle he could reconcile to himself so material a reduction; but even this sum, reduced as it is, I shall hereafter shew to be greatly exaggerated.

If these principles were self evident, there is no mine, however productive, that could supply the necessary stores for the balances that are claimed by the different nations of the world. One country claims a balance of £14,800,000., another of five millions, another of three, and the others of two and one, to the aggregate amount of nearly £40,000,000. annually: and as all assert their commerce to be favourable, it is obvious that their collective balances must be paid by a continual influx of bullion from the mine correspondent with their amount; but the annual produce of the mines of the world does not exceed £7,000,000.

If these principles be self-evident, money would act in direct violation of its primitive function as an uniform

measure; and, contrary to all reason and fact, a guinea in one country would express no more value than a shilling in another: the prices of one would be indefinitely raised above the prices of another; and money, in defiance of the interests of those, whose subsistence depends upon their unremitting attention to the smallest variation in its value, would be continually exported from the place where its value was highest to the place where its value was lowest, and ebb and flow regardless of the laws, which have uniformly directed its motion.

This inability of Lord Liverpool to account for the excess in the market price of money, and explain the cause of its efflux, necessarily prevented the suggestion of an adequate provision to obviate them.

For the general character and talents of Lord Liverpool I entertain, in common with the nation at large, the most sincere respect; but in the particular effort which he has made, in his Letter to the King, to elucidate the principles of coinage, his success is inferior to his estimation. For the accuracy of his historical detail, the perspicuity of his arrangement, and the elegant simplicity of his language, too much praise cannot be given; but as he failed to attain to a just perception of the principles of the system, which he has attempted to establish, his conclusions are necessarily erroneous.

# CHAPTER VI.

*On the Amount of our Specie.*



As a correct estimate of our specie would materially tend to elucidate the general reasoning contained in this work, I shall endeavour to form the best computation, which the loose nature of the subject will admit, though the most satisfactory calculation can only be said to approximate the truth.

It has usually been the custom to calculate the amount from the mint returns of our coinage, and Mr. Rose and Lord Liverpool have exclusively constructed their computations upon them. The estimate of Mr. Rose amounted to £44,000,000.; the estimate of Lord Liverpool, as I have already stated, to £30,000,000.; but as the clandestine exportation and melting of the coin totally disqualify these documents from furnishing a correct criterion, I shall endeavour to construct a more accurate estimate, by computing the proportion, which specie bears to paper in the general circulation of the kingdom.

Previous to the present system of our currency, when paper occupied a less considerable space in the circulation of the country, and the Bank of England maintained a cautious silence upon the extent of their issues, it would have been impracticable to have deduced a satisfactory

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conclusion from a comparison between the amount of paper and specie in the general transaction of our payments: but as the mystery in which this subject was formerly enveloped is now in some measure removed by the reports of the Secret Committee of 1797, the comparison may be instituted with a nearer prospect of success. It was deemed, indeed, imprudent by the officers of the Bank to communicate to the Committee the amount of the specie retained in their coffers, but the evidence of (*a*) Mr. Abraham Newland upon the proportion of their cash and paper payments is sufficiently explanatory of the sum in circulation. He said, that previous to the restriction, if the dividends to the public creditors amounted to £14,000,000. not more than from £1,300,000. to £1,400,000. would be paid in cash. If in so large a payment, where cash in any quantity might be demanded, and where, from the variation in the amount of interest, so many fractional sums must be given to the different proprietors, no more than one tenth part were paid in specie, it is fair to conclude that no more than a tenth would be given in all the other great money transactions of the metropolis. This opinion is fully corroborated by other parts of his evidence, where he says that £100,000. would be sufficient to effect all the cash payments of the Treasury; that in the gross produce of the customs, then amounting to £3,000,000., the Bank did not take above £5,000. cash; in the produce of the excise, then amounting to £7,000,000. not more than £60,000.; and in the instalments of a loan, amounting to much larger sums, not more than one per cent. No doubt, therefore, can remain respecting the

(*a*) See Report of the Lords' Committee of Secrecy, page 63.

vast predominance of paper over specie in all payments of considerable magnitude. The payments next in importance are those made by checks on private bankers; and by the best information which I can collect from them, one pound in ten would greatly exceed the proportion of their average cash receipts and expenditure. In payments of a still inferior order in the familiar intercourse of society it is only necessary to appeal to general notoriety and the evidence of each person in the sphere of his own experience. If, then, in the total combination of payments in the city of London it may be inferred that not more than one-tenth part, and this evidence by no means warrants so great a proportion, be effected with specie, it is obvious that if the paper of the Bank amount to £20,000,000., and be exclusively confined to the metropolis, the specie in a state of circulation cannot exceed the sum of £2,000,000. But it is not competent to conclude that even this sum, small as it may appear consistently with public opinion, is customarily current in London, for as some proportion of the paper of the Bank is distributed over the whole kingdom, the specie, according to the above mode of computation, can only be estimated at one tenth of the quantity exclusively employed in the circulation of the metropolis.

But the proportion of extra paper is not, perhaps, very considerable; the principal part of the currency of the country is composed of specie and the paper of provincial banks; but as no authentic documents have been laid before the public for an estimate of the issues of these banks, an inquiry into the quantity of the paper, and the

relative proportion of the specie of the country is attended with greater difficulty than a similar investigation in the metropolis where the issues of the Bank are made public. But not only is the amount of our provincial notes unknown, but the same rule of proportion for the computation of the coin will not apply, as in some places such is the quantity of paper that it almost supersedes the use of the precious metals, while in others, though the district be very limited, specie still maintains its prescriptive ascendancy. As no direct communication has, therefore, been made of the extent of their issue, it is necessary to resort to presumptive evidence by an estimate of their profits; for as the profits of their business almost wholly arise from the loan of their paper, (*a*) a computation of the one must necessarily lead, with some qualification, to a computation of the other.

The country banks, according to the last returns, amounted to 549,(*b*) and as their average profits have been estimated at £2,000. a year, it is necessary that their outstanding notes should amount to £22,000,000., and that the public should be burthened with an annual contribution of £1,100,000. for the exclusive inconvenience of possessing their paper in lieu of specie: some estimates, however, have carried their paper to a much higher sum, and Lord King (*c*) has even stated it at

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(*a*) Some allowance should certainly be made for the deposits of customers; but from the information, which I have collected, they form, with the majority of the country banks, a fund of no considerable extent.

(*b*) See List of Country Banks for 1806.

(*c*) See Lord King, page 108.

double the amount of the paper of the Bank of England, or (*a*) £40,000,000., which would give to the country banks an average profit of £3,500. a year, and raise the annual contribution of the public to £2,000,000. But these estimates are, in my opinion, much exaggerated, for though in the more opulent and extensive country towns the banks be for the most part formed by characters of the highest respectability, who are connected with no other branch of business, and whose profits are doubtless very considerable; yet in the lesser towns they are established by retail traders of every denomination, whose ostensible expenses but little correspond with such an income, and who would long since have relinquished the inferior department had such an accession been attainable. The annual average acquisition, therefore, of from £700. to £800. would, in my opinion, bear a much nearer affinity to the truth, which, some (*b*) allowance being made for the deposits of customers, would reduce their out-standing notes to £7,000,000. or £8,000,000., and the annual contribution of the public to between £350,000. and £400,000. But from the total failure of satisfactory evidence, every conjecture must be extremely arbitrary.

As no just conclusion can therefore be drawn respecting the collective amount of the notes of country banks, there must necessarily be a still greater distrust of accuracy in any estimate that can be formed of the relative

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(*a*) See Lord King, page 108.

(*b*) Some allowance should also be made for the interest arising from the coin, which is displaced and invested in the public securities.

quantity of the coin: but whatever difference of opinion there may be upon the aggregate sum of our provincial paper, no difference can be entertained respecting its great preponderance above specie in the general transaction of country payments. With the view of ascertaining the precise proportion, a motion was made by Lord Grenville for an account of the remittances of the Receivers General, with a specific statement of the sums that were paid in specie, and the sums that were paid in paper; but from the reluctance of government at that time to enter into a discussion of the subject and reform the present system, the motion was lost. Though, therefore the precise proportion cannot be ascertained, yet no doubt can subsist respecting the vast superiority of their paper, as in all the money dealings of the various markets, in the rent of land, and even in most instances in the wages of labour, their notes exclusively compose the medium of payment. From the immunity, however, of partial districts I am not disposed to estimate the coin at so low a proportion as in the metropolis: taking, therefore, a nearer gradation, and computing the coin at a fifth instead of a tenth, the sum in circulation will amount to about £1,500,000.; and I am the more inclined to affix it at this proportion, notwithstanding that it may bring the notes and specie to a nearer correspondence than the average payments will authorise, that some allowance may be made should my computation of the paper, which I was particularly desirous not to over-state, appear to be founded on too reduced a scale.

The aggregate amount, therefore, of the coin in cir-

culation throughout the whole kingdom will not, by this calculation, exceed the sum of £3,500,000.; to this sum it is necessary to add the average proportion in deposit: the hoards of individuals it would be superfluous to investigate, as the age of accumulating secret treasure has long sinse elapsed; but the various banking establishments necessarily detain a certain fund for the security of their credit beyond their ordinary receipt and expenditure. In private banks this fund is not, perhaps, very considerable, for as they in a great measure acquired the privilege of exemption from cash payments when the restriction on the Bank of England took place, it would be absurd to suppose that their deposits would be unnecessarily extended, when no drain could be effected to exhaust them. If, therefore, the stock of coin in each of the 549 country banks be computed on the average at £1000., and in each of the 70 London banks at £4000., the estimate would, I am informed, be sufficiently ample to cover the real amount. There can, perhaps, be little doubt but that every bank, both in London and the country, has at different times possessed ten times the proportion of specie which I have assigned to them; but it is improbable that their ordinary deposit, exclusive of the sum appropriated to their daily transactions, should have exceeded this sum since the general suspension of their cash payments.

The only remaining sum, therefore, which it is necessary to consider, is the deposit of the Bank of England. This deposit has at all times, in my opinion, been much exaggerated. It has generally been conceived by the

public that their average stock of coin and bullion amounted to eight or ten millions; but there appears to me to be no foundation for such a supposition. It is well known that at various periods during the last century their stock was extremely low: in 1745 they paid in sixpences, for the purpose of gaining time to procure an adequate supply of guineas for the pressure of the moment. During the prosecution of the American war it is acknowledged by Mr. Bosanquet (*a*) that "their funds had been gradually reduced to a certain degree of depression;" and in 1783 he expressly stated that their cash was reduced to a lower scale than in 1797, at the period of the restriction. In the late war, so early as the year 1794, they made representations to Mr. Pitt of the exhausted state of their coffers; in 1795 they had frequent conferences with him on the same subject, and on the 10th of (*b*) October delivered a paper, which was presented to the cabinet, explanatory of their embarrassment; in December of the same year they limited their discounts, from an apprehension of the consequences that might result from an unrestricted acceptance of the bills that were presented to them; in 1796 further conferences were held with Mr. Pitt, from a further diminution of their cash; and in 1797 they were reduced to the necessity of suspending their payments. These difficulties form conclusive evidence that the sum in deposit at these particular junctures was not to a material amount. Subsequently to the restriction, the state of the exchange, and the price of bullion,

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(*a*) See Report of the Secret Committee of the Commons, page 26.
(*b*) See Report of the Secret Committee of Lords, page 152.

will sufficiently attest how small a quantity they have had an opportunity of procuring; for though in 1797, and the greater part of the year 1798, they were capable of replenishing their coffers from the favourable state of the exchange, yet from 1798 to 1803, such was its remarkable depression, that there is every reason to believe that the bullion trade has collected and molten, not only whatever proportion was imported in 1797 and 1798, but even the greater proportion of the sum that was previously in circulation.

But the most material fact in confirmation of my argument is, the necessity, to which they have been frequently reduced of purchasing bullion for conversion into coin in large quantities above its mint price; as it is obvious that they would never have submitted to the loss which they incurred by this expedient, had any superfluous treasure been remaining in their coffers. But in order to explain this subject more fully, it is necessary to make some investigation into the surreptitious melting of our specie, and the mint account of our coinage.

As £3. 17*s*. 10½*d*., the twelfth part of 44 guineas and a half, constitute in our coin an ounce of gold; £100., or 95 guineas and 5*s*., constitute 2*lb*. 1*oz*. 13*dwt*. 15*gr*. Previous, therefore, to the restriction, the Bank of England were at all times compelled to give upon demand 2*lb*. 1*oz*. 13*dwt*. 15*gr*. weight of gold, or, which is the same thing, 95*g*. 5*s*. for an £100. bank note. The bullion merchant, therefore, by resorting to this Company, could at all times procure 2*lb*. 1*oz*. 13*dwt*.

CHAPTER VI.

15*gr.* at the fixed price of £100. But it has already been seen, that upon a relative excess of our currency the market price has frequently advanced to £4., £4. 2*s.*, £4. 4*s.*, and £4. 6*s.* an ounce: taking it, therefore, for instance, at £4. 4*s.*, the goldsmith could demand of the Bank 2*lb.* 10*oz.* 13*dwt.* 15*gr.* at the fixed sum of an £100. and sell it in the market, by an immediate conversion into bullion, for £107. 17*s.*, obtaining a profit of £7. 17*s.* per cent. as often as the conversion was effected, which might be done with facility in a few hours, and repeated every day, to the extent of many thousands. During the continuance of this excess in the market above the mint price of our money, a drain was naturally caused upon the Bank to secure the profit which the difference allowed; and as this drain had a necessary tendency to exhaust their stores, they were frequently reduced to the necessity of re-purchasing at the market price the very gold which they had been compelled to utter at the mint price, notwithstanding the loss which they suffered by it. Whatever sum they thus procured was immediately remitted to the Tower again to be coined, again to be drained from their coffers, again to be consigned to the crucible, and again to be re-purchased to undergo the same process in the same succession as long and as often as the difference subsisted. The Directors have so frequently and so fatally experienced the effects of this excess, that in a letter to Mr. Pitt, dated October 8th, 1795, they simply state the fact, from a conviction that the result must be instantly admitted. "The present price of gold bullion being from £4. 3*s.* to £4. 4*s.* an ounce, and our guineas being to be purchased at £3. 17*s.* 10½*d.* an ounce, clearly

[*To face Page* 151.

Mint Office, 22d March, 1797.

An ACCOUNT of all the Gold imported into His Majesty's Mint, and the Amount of Gold Monies coined, during His Majesty's Reign, distinguishing (as far as this Office appears to have been enabled to particularise*) the Ingots received in each Year produced from Guineas and from Foreign Gold, with the Value of each; prepared pursuant to Order of the Right Honourable the Lords of a Secret Committee of the House of Lords, dated 20th March, 1797.

| Imported in each Year | Gold in Ingots, produced from Guineas. | | | | Value. | | | Foreign Gold. | | | | Value. | | | Amount of Gold Monies coined in each Year. | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| From 28th October 1760 — | | | | | | | | | | | | | | | 111,325 | 10 | 5 |
| | *lbs.* | *oz.* | *dwts.* | *gr.* | £. | *s.* | *d.* | *lbs.* | *oz.* | *dwts.* | *gr.* | £. | *s.* | *d.* | | | |
| 1 — | — | — | — | — | — | — | — | 12,154 | 9 | 9 | 10 | 567,932 | 10 | 5 | 550,887 | 15 | — |
| 2 — | — | — | — | — | — | — | — | 13,001 | 10 | 5 | 5 | 607,511 | 13 | 6 | 553,691 | 5 | — |
| 3 — | 988 | 6 | — | 21 | 46,188 | — | — | 8,976 | — | 14 | 10 | 419,406 | 8 | 1 | 513,040 | 10 | — |
| 4 — | 40 | — | 11 | 22 | 1,871 | 6 | 4 | 20,195 | 11 | 15 | 11 | 943,657 | 4 | 3 | 883,102 | 10 | — |
| 5 — | 32 | 4 | — | 12 | 1,510 | 17 | 5 | 11,363 | 10 | 1 | 18 | 530,975 | 9 | — | 538,272 | — | — |
| 6 — | 34 | 8 | 13 | 12 | 1,622 | 8 | 7 | 16,463 | — | 4 | 5 | 769,234 | 9 | 10 | 820,724 | 12 | 6 |
| 7 — | — | 11 | — | 12 | 42 | 18 | 7 | 28,335 | 8 | 15 | 11 | 1,323,987 | — | 8 | 1,271,807 | 15 | 6 |
| 8 — | 42 | 11 | 9 | 6 | 2,007 | 1 | 7 | 16,914 | 8 | 1 | — | 790,337 | 19 | 10 | 844,554 | 7 | 6 |
| 9 — | — | — | — | — | — | — | — | 14,621 | 6 | — | 15 | 683,189 | 14 | 2 | 626,582 | 5 | — |
| 1770 — | — | — | — | — | — | — | — | 13,986 | 11 | 18 | 7 | 653,542 | 4 | 10 | 623,778 | 15 | — |
| 1 — | — | — | — | — | — | — | — | 13,715 | 9 | — | 15 | 640,868 | 10 | 9 | 637,796 | 5 | — |
| 2 — | 29 | — | 13 | 14 | 1,357 | 13 | 4 | 17,706 | 1 | 7 | 19 | 827,318 | 5 | 1 | 843,853 | 10 | — |
| 3 — | 21,623 | — | 9 | 21 | 1,010,336 | 11 | 11 | 20,184 | 8 | 13 | 9 | 933,681 | 3 | — | 1,317,645 | 17 | 6 |
| 4 — | 101,615 | 6 | 2 | — | 4,747,984 | 12 | 6 | — | — | — | — | — | — | — | 4,685,623 | 11 | 2 |
| 5 — | 75,154 | 1 | 19 | 12 | 3,511,578 | 6 | 10 | 33,754 | 3 | 5 | 14 | 1,577,168 | 8 | 1 | 4,901,218 | — | — |
| 6 — | 98,677 | 6 | 15 | 22 | 4,610,709 | 5 | 8 | 6,532 | 4 | 16 | 21 | 305,226 | 11 | 2 | 5,006,350 | 2 | 6 |
| 7 — | 58,143 | 4 | 9 | 10 | 2,716,749 | 1 | 8 | 1,561 | 8 | 5 | 4 | 72,969 | 17 | 7 | 3,680,995 | 10 | — |
| 8 — | 7,085 | 6 | 5 | 17 | 331,071 | 2 | — | 4,071 | 5 | 11 | 15 | 190,239 | 4 | 1 | 350,437 | 10 | — |
| 9 — | 4,816 | 8 | 14 | 6 | 225,061 | 10 | — | 28,298 | 11 | 5 | 13 | 1,322,267 | 19 | 1 | 1,696,117 | 10 | — |
| 1780 — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 1 — | 6,282 | — | 9 | 4 | 293,528 | 4 | 8 | 11,919 | 10 | 13 | 13 | 556,956 | 16 | 11 | 876,794 | 12 | 6 |
| 2 — | 11,004 | 10 | 10 | 2 | 514,202 | 16 | — | 3,782 | 1 | 5 | 22 | 176,718 | 19 | 10 | 698,107 | 7 | 3 |
| 3 — | 2,375 | 1 | 3 | 23 | 110,976 | 10 | 3 | 2,676 | 8 | 2 | 13 | 125,067 | 14 | 10 | 227,083 | 10 | — |
| 4 — | 9,613 | 8 | 15 | 7 | 449,201 | 11 | — | 9,129 | 2 | 12 | 23 | 426,562 | 13 | 11 | 822,126 | 7 | 6 |
| 5 — | 12,462 | 10 | 19 | 9 | 582,329 | 13 | 2 | 42,585 | 1 | 5 | 15 | 1,989,789 | — | 9 | 2,488,106 | 5 | — |
| 6 — | 14,645 | 2 | 9 | 4 | 684,297 | 3 | 11 | 12,231 | 8 | 4 | 9 | 571,525 | 9 | 5 | 1,107,382 | 10 | — |
| 7 — | 72,851 | — | 12 | 12 | 3,403,965 | 7 | 4 | 1,220 | — | 16 | 22 | 57,007 | 15 | 10 | 2,849,056 | 17 | 6 |
| 8 — | 46,562 | 11 | 3 | 13 | 2,175,652 | 19 | 4 | 19,103 | — | 9 | 1 | 892,589 | 8 | 8 | 3,664,174 | 10 | — |
| 9 — | 28,215 | 8 | 9 | 7 | 1,318,378 | 16 | 7 | 16,835 | 7 | 6 | 17 | 786,643 | 18 | 8 | 1,530,711 | — | — |
| 1790 — | 25,360 | 10 | 1 | 23 | 1,184,985 | 6 | 4 | 19,186 | 6 | 14 | 8 | 896,492 | 1 | 8 | 2,660,521 | 10 | — |
| 1 — | 21,943 | 9 | — | 14 | 1,025,321 | 16 | 7 | 30,326 | — | 16 | — | 1,416,985 | 9 | 3 | 2,456,566 | 17 | 6 |
| 2 — | 18,471 | 4 | 3 | 13 | 863,073 | 14 | 9 | 2,005 | — | 2 | 1 | 93,684 | — | 5 | 1,171,863 | — | — |
| 3 — | 20,214 | 11 | 8 | 19 | 944,543 | 13 | 9 | 50,144 | 6 | 17 | 7 | 2,343,005 | 2 | 6 | 2,747,430 | — | — |
| 4 — | 12,066 | 9 | 19 | 23 | 563,822 | 15 | 7 | 30,535 | 5 | 19 | 7 | 1,426,771 | 1 | 9 | 2,558,894 | 12 | 6 |
| 5 — | 7,129 | 2 | 19 | 9 | 333,114 | 1 | 8 | 5,472 | 10 | 17 | 17 | 255,721 | 11 | 8 | 493,416 | — | — |
| 6 — | 5,783 | 4 | 16 | 7 | 270,229 | 8 | 5 | 1,544 | 9 | 6 | 17 | 72,179 | 14 | 11 | 464,680 | 2 | 6 |
| To 22d March 1797 — | 1,947 | 10 | 12 | 12 | 91,014 | 18 | 11 | 1,447 | 8 | 16 | 7 | 67,645 | 7 | 9 | — | — | — |
| | 685,216 | 3 | 2 | 1 | 32,016,729 | 14 | 8 | 541,986 | 4 | — | 3 | 25,314,861 | 2 | 2 | 57,274,617 | 4 | 6 |

* Gold is received promiscuously in Ingots into the Mint, but it has no official Knowledge of the Species of Monies, &c. &c. from which they are produced.—The Communication of Importers at the Time is generally obtained, but in some Cases themselves cannot clearly ascertain it.

EDWARD LUCAS, Deputy Warden.
JAMES MORRISON, Deputy Master.
JOHN WYETT, Deputy Comptroller.

demonstrates the grounds of our fears, it being only necessary to state those facts to the Chancellor of the Exchequer." (*a*)

This, then, is the conflict which the Directors and the bullion merchants have uniformly sustained, from the first institution of the Bank to the present time: and this is the conflict which has uniformly restricted the currency of this country, while our paper was convertible at option into specie, to the same relative amount with the currency of others; for as in every instance where the over-issue occurred, and the market price of our money exceeded the mint price, the bullion merchants returned the paper upon the Bank, and by the contraction which they provoked, restored the correspondence, they invariably prevented the Directors from transgressing beyond a certain extent the just limits of circulation.

The mint (*b*) return of our coinage will sufficiently illustrate the activity of this contest during the present reign.

It is admitted in this return that £32,000,000. out of the £57,000,000. which have been published by the mint during the present reign, have been coined from ingots composed of molten guineas, and £25,000,000. only from Portugal gold; and as the three proclamations of 1773, 1774, and 1776, during the re-coinage, brought in no

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(*a*) See House of Commons Report, page 171.

(*b*) See the annexed account, from the Report of the Secret Committee of the Lords, pages 239 and 240.

more than (*a*) £15,563,593. in light guineas, it is obvious that £16,500,000. have been re-coined, by the confession of the officers of the mint, from guineas converted by the goldsmiths into bullion, from the cause which I have explained. Though this proportion form, indeed, a material fact to attest the truth of my argument, yet there is reason to conclude that even this sum, great as it is, is still under-rated; for as it is acknowledged in the return, that the officers of the mint cannot always discriminate from what gold the ingots are produced, and as it is the interest of the venders to represent their composition of foreign coin, it is competent to presume that the decision is very frequently made in favour of Portugal gold, contrary to the real fact.

It is alleged, indeed, that the ingots are invariably produced from light guineas; but this assertion is only made by the vender to colour the transaction with an appearance of legality. The bullion trade is exclusively conducted by an order of people proverbially remarkable for their shrewdness in traffic, and who would not to their own loss have selected the lightest instead of the

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(*a*) It has been stated to me, and it is a fact well known, I believe, to the Directors of the Bank, that much the greater proportion of the £15,563,593. of light guineas were coined for the express purpose of taking advantage of the liberality of government, which allowed new guineas of full weight to be given for them; nor can there, indeed, be the least doubt but that the light guineas of 1773 and 1774 were coined from the heavy guineas previously in circulation; and that the light guineas of 1776 were coined from the heavy guineas so published in 1773 and 1774. This mode of employing the liberality of government sufficiently indicates the impolicy of calling in old money at more than its mint value.

heaviest pieces. It is true that light guineas are frequently sold to the Bank at a slight per centage profit to the collector, but they are made (*a*) light for the express purpose of being so sold; and as there is no reason that guineas should undergo the process of attenuation preparatory to their conversion into bullion, the supposition that the ingots are invariably composed of light money is obviously groundless.

The £25,000,000. of gold alleged to have been imported from Portugal, if the preceding observations be correct, is probably much overstated; but the proportion of our coinage which has been produced from foreign gold in the present reign, has been for the most part remitted to this country during a favourable state of exchange, and purchased by the Bank below the mint price; but that the whole of this proportion has been drawn from their deposits upon the recurrence of unfavourable exchanges, and re-exported to the continent, is sufficiently confirmed by the exigency to which, as I previously remarked, they have been frequently reduced, of purchasing gold above its mint price, which would have been wholly unnecessary had this stock been dormant in their coffers.

An additional confirmation of my argument is, the

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(*a*) As an assertion was made by the dealers in bullion, that guineas became light by wear, it was thought necessary to investigate the fact; and Mr. Hatchett and Mr. Cavendish, by a train of masterly experiments, have fully proved its utter impossibility. See Transactions of the Royal Society for 1803.

CHAPTER VI.

comparatively small coinage of silver. Though the coinage of gold have amounted to (*a*) £62,945,866. the coinage of silver has amounted to no more than £63,419. 6*s*. 8*d*., (*b*) or 1,268,386 shillings and 8*d*. in tale. This relative inferiority has solely proceeded from the exclusion of the silver coin in the conflict between the goldsmiths and the Bank; for, as I explained in the fourth chapter, that the silver coin had uniformly participated in the value of paper, and been reduced to a debasement in proportion to the excess in its market price, it was necessarily secured from the crucible; had it, however, happened on the contrary, that it had continued correspodent with its mint standard, and partaken of the intrinsic value of the gold coin, the contest would have been supported with the one coin as much as with the other, and the coinage of the one have been proportionate to the coinage of the other. But as, notwithstanding this remarkable disparity in the coinage of the two metals, the silver coin has been relatively abundant, and the gold coin relatively scarce throughout the whole reign, it necessarily follows that the gold has been in a constant state of transmutation from coin to bullion and from bullion to coin, and that at no given time was there any approximation to the sum which the imposing returns of the mint have given reason to conclude.

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(*a*) According to the mint return presented to the Secret Committee of the Lords, the coinage amounted in 1797 to £57,274,617. In 1800 it extended to £62,945,866. See Mr. Chalmers's Estimate, page 234.

(*b*) Of this sum £55,459., or more than a million of the shillings, were coined in 1787; but they of course immediately disappeared.

A reference to the statement in the fourth chapter relative to the market price of gold, will sufficiently point out the extent to which it is competent to presume that the surreptitious melting has been lately carried.

Instead, therefore, of the mint returns of our coinage affording a criterion of the abundance of our gold coin, as Mr. Rose and Lord Liverpool have contended, they furnish the most direct evidence that can be adduced of its remarkable scarcity, as they shew the necessity to which the Bank have been frequently reduced of purchasing large quantities of ingots notoriously composed of molten guineas, for occasional supplies, and setting the mint at work for no other purpose than to replenish the crucible of the goldsmith.

Not only, therefore, does this argument remove the illusion by which the public have so long been misled, of computing the amount of our specie by the mint account of our coinage; but it sufficiently exposes the exaggerated opinion so commonly entertained of the deposits of the Bank of England, as it is reasonable to infer, had this opinion been well founded, that they would never have submitted to the disadvantageous purchases which they have so repeatedly made, nor have tendered such frequent remonstrances to the Chancellor of the Exchequer upon the exhausted condition of their coffers. It should, however, be distinctly understood, that the solvency of the Bank depends not, in the slightest degree, upon the existing stock of their bullion, as whatever proportion of paper is lent to government is advanced upon the credit of Exchequer bills, and whatever proportion to individual

merchants is advanced upon the bills of the wealthiest and most respectable characters of the commercial community; not a single note, therefore, is in circulation without the deposit of an adequate pledge in their coffers for the redemption of its value.

From the whole of the foregoing argument, therefore, it is impossible to infer that their average deposit, exclusive of their ordinary receipt and expenditure, amounts to a greater sum than £600,000. or £700,000., which they are enabled to maintain at an expense of from £30,000. to £35,000. a year; but had their deposit amounted, as had been conceived, to £8,000,000. or £10,000,000. the Directors would have ill discharged their duty to the Company, as they would necessarily have occasioned an annual loss of £400,000. and £500,000.

If, then, it may be concluded, that th ordinary sum in circulation in the metropolis is not to a greater amount than £2,000,000., and in the provincial districts than £1,500,000., and that the average sum in detention by private banks is not more than £830,000., nor the stores of the Bank of England than £650,000., the consolidated stock of specie throughout the whole kingdom in circulation and deposit, will not exceed the sum of five millions: and inconsiderable as this sum may appear, consistently with the prevailing opinion of the times, I am most confident that in every particular estimate upon which the calculation is founded, I have exceeded the real amount.

Some severe animadversions have been passed by Lord Liverpool upon the illicit system of melting the coin; but

upon an unfavourable exchange the Bank would be subjected to the same drain for clandestine exportation to the continent, and to the same loss in re-purchasing an adequate stock to supply the demand, were the system prevented; as the profit which the goldsmith could derive by remittance abroad, is at all times nearly correspondent with the profit, which he makes in the market at home. All regulations to counteract the melting or export of coin, when it is the interest of individuals to effect it, are not only impracticable but impolitic, as the only consequence, were their execution feasible, would be an indefinite advance in the price of our produce above the produce of other countries. The practice, therefore, of clandestine remittance, which brings our currency to its relative proportion, and the system of melting, which has a similar operation, are obvious results, in the existing state of our currency, of the property of money to maintain its level. If the excess in the market price of our money were prevented by the compression of our paper within its proper limits, no temptation to melt would exist. The fault is in those who suffer the excess, rather than in those who take advantage of it.

# CHAPTER VII.

*On the Balance of Trade.*

CHAPTER VII.

BEFORE I undertake to investigate the theory of the balance of trade, it is necessary to recapitulate the heads of the preceding arguments.

After the preliminary observations on the writings of Mr. Hume, Sir James Steuart, and Dr. Adam Smith, I endeavoured in the second chapter to explain that it was not only the property of money to be the universal measure of value, but that it was a necessary consequence of this property that it should be an uniform measure; and I attempted to prove,

That the aggregate stock of the specie of a country constituted the currency by which its produce was measured, and not the capital, by which its produce was raised.

That an increase of currency was an increase of the means of mensuration, and not an increase of wealth.

And, that no one nation could permanently possess a greater relative currency than another, and permanently cause the same sum to measure in one place a less value than it measured in another.

*To face page 158.*

# A CHRONOLOGICAL ACCOUNT of COMMERCE in this Island, from the RESTORATION to the Year 1800 inclusive.

*BY MR. CHALMERS.*

| *Epochs.* | | *Ships cleared outwards.* Tons | English. | D° Foreign. | Total. | *Value of Cargoes Exported.* English. | Scotch. | Total. | *Balance of Trade.* English. | Scotch. | Total. | *Net Customs paid into the Exchequer.* | *Money Coined.* | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| The Restoration, | 1663, 1669 | — | 95,266 | 47,634 | 142,900 | £. 2,043,043 | — | £. 2,043,043 | Unfavourable. | — | — | £. 390,000 | By Charles II. | £. 7,524,105 |
| | | | | | | | | | | | | | By James II. | 2,737,637 |
| The Revolution, | 1688 | — | 190,533 | 95,267 | 285,800 | 4,086,087 | — | 4,086,087 | Doubtful. | — | — | 551,141 | | £. 10,261,742 |
| Peace of Ryswick, | 1697 | — | 144,264 | 100,524 | 244,788 | 3,525,907 | — | 3,525,907 | £. 43,320 | — | £. 43,320 | 694,892 | | |
| | | | | | | | | | | | | | By William III. | £. 10,511,963 |
| Last Years of William III. | 1700, 1, 2 | — | 273,693 | 43,635 | 317,328 | 6,045,432 | — | 6,045,432 | 1,386,832 | — | 1,386,832 | 1,474,861 | | |
| Wars of Anne, | 1709 | — | 243,693 | 45,625 | 289,318 | 5,913,357 | — | 5,913,357 | 2,116,451 | — | 2,116,451 | 1,257,332 | By Anne, | £. 2,691,626 |
| | 1712 | — | 326,620 | 29,115 | 355,735 | 6,868,840 | — | 6,868,840 | 3,014,175 | — | 3,014,175 | 1,315,423 | | |
| First of George I. | 1713, 14, 15 | — | 421,431 | 26,573 | 448,004 | 7,696,573 | — | 7,696,573 | 1,904,151 | — | 1,904,151 | 1,588,162 | By George I. | £. 8,725,921 |
| First of George II. | 1726, 27, 28 | — | 432,832 | 23,651 | 456,483 | 7,891,739 | — | 7,891,739 | 3,514,768 | — | 3,514,768 | 1,621,731 | | |
| Peaceful Years, | 1736, 37, 38 | — | 476,941 | 26,627 | 503,568 | 9,993,232 | — | 9,993,232 | 4,642,502 | — | 4,642,502 | 1,492,009 | | |
| War of | 1739, 40, 41 | — | 384,191 | 87,260 | 471,451 | 8,870,499 | — | 8,870,499 | 2,455,313 | — | 2,455,313 | 1,399,865 | | |
| Peaceful Years | 1749, 50, 51 | — | 609,798 | 51,386 | 661,184 | 12,599,112 | — | 12,599,112 | 6,521,964 | — | 6,521,964 | 1,565,942 | | |
| War of | 1755, 56, 57 | — | 451,254 | 73,436 | 524,710 | 11,708,515 | 663,401 | 12,371,916 | 4,046,465 | — | 4,046,465 | 1,763,314 | By George II. Gold, | £. 11,662,216 |
| | | | | | | | | | | | | | Silver, | 304,360 |
| | | | | | | | | | | | | | | £. 11,966,576 |
| First of George III. | 1760 | — | 471,241 | 102,737 | 573,978 | 14,694,970 | 1,086,205 | 15,781,175 | 5,746,270 | 235,412 | 5,981,682 | 1,969,934 | | |
| | 61 | — | 508,220 | 117,835 | 626,055 | 14,873,191 | 1,165,722 | 16,038,913 | 6,822,051 | 417,082 | 7,239,133 | 1,866,152 | | |
| | 62 | — | 480,444 | 120,126 | 600,570 | 13,545,171 | 998,165 | 14,543,336 | 5,263,858 | 289,240 | 5,553,098 | 1,858,417 | | |
| | 63 | — | 561,724 | 87,293 | 649,017 | 14,487,507 | 1,091,436 | 15,578,943 | 4,495,146 | 187,545 | 4,682,691 | 2,249,604 | | |
| | 64 | — | 583,934 | 74,800 | 658,734 | 16,512,404 | 1,243,927 | 17,756,331 | 6,148,096 | 357,575 | 6,505,671 | 2,169,473 | | |
| | 65 | — | 651,402 | 67,855 | 719,257 | 14,550,507 | 1,180,867 | 15,731,374 | 3,660,704 | 258,466 | 3,919,230 | 2,271,231 | | |
| | 66 | — | 681,281 | 61,753 | 746,034 | 14,024,964 | 1,163,704 | 15,188,668 | 2,549,189 | 182,715 | 2,731,904 | 2,448,280 | | |
| | 67 | — | 645,835 | 63,206 | 709,041 | 13,844,511 | 1,245,490 | 15,090,001 | 1,770,555 | 222,293 | 1,992,848 | 2,355,850 | | |
| | 68 | — | 668,786 | 72,734 | 741,520 | 15,117,983 | 1,502,150 | 16,620,133 | 3,239,322 | 265,501 | 3,504,823 | 2,445,016 | | |
| | 69 | — | 709,855 | 63,020 | 772,875 | 13,438,236 | 1,563,053 | 15,001,289 | 1,529,676 | 337,523 | 1,867,199 | 2,639,086 | | |
| | 1770 | — | 703,495 | 57,476 | 760,971 | 14,266,654 | 1,729,915 | 25,996,569 | 2,049,716 | 514,556 | 2,564,272 | 2,546,144 | | |
| | 71 | — | 773,390 | 63,532 | 836,922 | 17,161,147 | 1,857,334 | 19,018,481 | 4,339,151 | 471,005 | 4,810,156 | 2,642,129 | | |
| | 72 | — | 818,108 | 72,603 | 890,711 | 16,159,413 | 1,560,756 | 17,720,169 | 2,860,961 | 350,492 | 3,211,453 | 2,525,596 | | |
| | 73 | — | 771,483 | 54,820 | 826,303 | 14,763,253 | 1,612,175 | 16,375,428 | 3,356,412 | 496,376 | 3,852,788 | 2,439,017 | | |
| | 74 | — | 798,240 | 65,273 | 863,513 | 15,916,344 | 1,372,143 | 17,288,487 | 2,888,678 | 169,866 | 3,058,544 | 2,507,770 | | |
| | 75 | — | 783,226 | 64,860 | 848,086 | 15,202,366 | 1,123,998 | 16,326,364 | 2,275,003 | — | 2,275,003 | 2,481,031 | By George III. Gold, | £. 30,457,805 |
| | 66 | — | 778,878 | 72,188 | 851,066 | 13,729,726 | 1,025,973 | 14,755,699 | 2,962,424 | 279,292 | 3,241,716 | 2,480,403 | before the 31st Silver, | 7,126 |
| | 77 | — | 736,234 | 83,468 | 819,702 | 12,653,363 | 837,643 | 13,491,006 | 1,472,996 | 35,389 | 1,508,385 | 2,229,106 | Dec. 1780, | £. 30,464,931 |
| | 78 | — | 657,238 | 98,113 | 755,351 | 11,551,070 | 702,820 | 12,253,890 | 1,379,653 | — | 1,379,653 | 2,162,681 | | |
| | 79 | — | 590,911 | 139,124 | 730,035 | 12,693,430 | 837,273 | 13,530,703 | 2,092,133 | 62,501 | 2,154,634 | 2,502,274 | | |
| 1780 | | — | 619,462 | 134,515 | 753,977 | 11,622,333 | 1,002,039 | 12,624,372 | 1,688,494 | 99,315 | 1,787,809 | 2,723,920 | *Gold.* | *Silver,* |
| | 81 | — | 547,953 | 163,410 | 711,363 | 10,569,187 | 763,109 | 11,332,296 | — | — | — | 2,791,428 | £. 876,794 | £. 62 |
| | 82 | — | 552,851 | 208,511 | 761,362 | 12,355,750 | 653,709 | 13,009,459 | 2,823,143 | — | 2,823,143 | 2,861,563 | 698,074 | |
| | 83 | — | 795,669 | 157,969 | 953,638 | 13,851,671 | 829,824 | 14,681,495 | 1,737,027 | — | 1,737,027 | 2,848,320 | 227,083 | |
| | 84 | — | 846,355 | 113,064 | 959,419 | 14,171,375 | 929,900 | 15,101,275 | 52,209 | — | 52,209 | 3,326,639 | 822,126 | 202 |
| | 85 | — | 951,855 | 103,398 | 1,055,253 | 15,762,593 | 1,007,635 | 16,770,228 | 862,650 | — | 862,650 | 4,592,091 | 2,488,106 | |
| | 86 | — | 982,132 | 116,771 | 1,098,903 | 15,385,987 | 914,738 | 16,300,725 | 775,824 | — | 775,824 | 4,076,911 | 1,107,382 | |
| | 87 | — | 1,104,711 | 132,243 | 1,236,954 | 17,181,032 | 1,115,134 | 18,296,166 | 845,935 | — | 845,935 | 3,673,807 | 2,849,056 | 55,459 |
| | 88 | — | 1,243,206 | 121,932 | 1,365,138 | 16,934,994 | 1,189,088 | 18,124,082 | 383,939 | — | 383,939 | 3,780,770 | 3,664,174 | |
| | 89 | — | 1,343,800 | 99,858 | 1,443,658 | 18,843,221 | 1,170,076 | 20,013,297 | 2,435,082 | — | 2,435,082 | 3,710,343 | 1,530,711 | |
| 1790 | | — | 1,260,828 | 144,132 | 1,404,960 | 18,884,716 | 1,235,404 | 20,120,120 | 1,442,267 | — | 1,442,267 | 3,782,822 | 2,660,521 | |
| | 91 | — | 1,333,106 | 178,051 | 1,511,157 | 21,435,459 | 1,296,535 | 22,731,994 | 3,747,307 | — | 3,747,307 | 3,952,507 | 2,456,566 | 32,480,932 |
| | 92 | — | 1,396,003 | 169,151 | 1,565,154 | 23,674,316 | 1,230,884 | 24,905,200 | 5,776,615 | — | 5,776,615 | 4,027,230 | 1,171,863 | 252 |
| | 93 | — | 1,101,326 | 180,121 | 1,281,447 | 19,395,428 | 1,024,751 | 20,390,180 | 1,542,154 | — | 1,542,154 | 3,978,645 | 2,747,430 | |
| | 94 | — | 1,247,398 | 209,679 | 1,457,077 | 25,663,272 | 1,084,811 | 26,748,083 | 4,818,273 | — | 4,818,273 | 3,565,117 | 2,558,894 | |
| | 95 | — | 1,030,058 | 370,238 | 1,400,296 | 26,146,346 | 976,991 | 27,123,338 | 4,677,977 | — | 4,677,977 | 3,569,360 | 493,416 | 293 |
| | 96 | — | 1,108,258 | 454,847 | 1,563,105 | 29,196,190 | 1,322,723 | 30,518,913 | 7,733,480 | — | 7,733,480 | 3,651,757 | 464,680 | |
| | 97 | — | 971,596 | 379,775 | 1,351,371 | 27,699,889 | 1,217,121 | 28,917,010 | 8,179,016 | — | 8,179,016 | 4,111,105 | 2,000,297 | |
| | 98 | — | 1,163,534 | 345,132 | 1,508,666 | 31,922,580 | 1,669,197 | 33,591,777 | 5,968,419 | — | 5,968,419 | 5,599,087 | 2,967,504 | |
| | 99 | — | 1,145,314 | 390,612 | 1,535,926 | 34,074,698 | 1,916,630 | 35,991,329 | 9,590,856 | — | 9,590,856 | 7,538,355 | 449,961 | |
| 1800 | | — | 1,269,329 | 654,713 | 1,924,042 | 40,805,947 | 2,346,669 | 43,152,019 | 12,448,135 | 133,278 | 12,581,413 | 6,799,755 | 189,936 | 90 |
| | | | | | | | | | | | | | The Total of the present Reign. | 62,945,863 |

I endeavoured in the third chapter to prove that the course of exchange afforded the practical means by which money was enabled to discharge its functions as an uniform measure; that in every instance where it incidentally occurred that any one country employed a greater relative currency than another, and that the same sum was temporarily made to measure in the one a less value than it measured in the other, the course of exchange became unfavourable, and led to the departure of its surplus specie to rectify the disproportion; and that the interruption which this temporary difference in the relative amount of their currency occasioned to the uniformity of mensuration, was the sole cause of the efflux and influx of money.

I endeavoured in the fourth chapter to prove, that the fluctuation in the market price of money above and below its mint price exclusively arose from the same incidental variation in the relative amount of the currency of different countries, which caused a temporary departure from the uniformity of mensuration, and occasioned a greater quantity of the coin of one country to be given for a less quantity of the coin of another, to reconcile the disparity.

I endeavoured in the fifth chapter to prove, that when the coin of any given country ceased to constitute a common standard, the depreciated coin necessarily became the prevailing measure.

And I endeavoured in the sixth chapter to prove, that the collective amount of the specie of this country, upon

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an estimate manifestly overcharged, did not exceed the sum of £5,000,000.

But the fundamental tenets, upon which the theory of the balance of trade is supported, are:

That money and wealth are synonymous terms, and that an increase of the one necessarily implies an increase of the other.

That the aggregate specie of a country forms the capital by which its produce is raised.

That the relative currency of any one country may be augmented to an indefinite extent above the relative currency of another; and that a guinea in the one may express no more value than a shilling in the other.

That the influx of money is exclusively governed by the excess of exports above imports, and the efflux of money by the excess of imports above exports.

That the fluctuation in the market price of money above and below the mint price arises from the fluctuation in the state of trade; that the market price of money is below the mint price, when bullion is imported for the payment of a favourable balance, and above the mint price when bullion is demanded for export to pay an unfavourable balance.

And that the amount of the specie of any given country is necessarily correspondent with the progressive accumulation of its favourable balances.

The tenets, therefore, upon which the theory of the balance of trade is supported, have been already refuted; for as the one system shews that money has acted in

due conformity to its primitive institution, as an uniform measure, and is fully confirmed by the evidence of facts, the universal correspondence of prices; and the other system shews, that, contrary to this evidence and the plainest dictates of reason, money has acted in direct opposition to the purport of its institution, and has constituted in one country a different measure from what it constituted in another, no doubt can be entertained of the truth of the one system and the fallacy of the other. This refutation of the fundamental tenets of the theory will materially simplify the subsequent argument; and so far, indeed, as the elements of the system are concerned, may be said to render any further investigation unnecessary.

The theory of the balance of trade is formed upon the following principle:

When the value of the whole of the merchandize which is exported by a country exceeds the value of the whole of the merchandize which is imported by it, the balance of trade is alleged to be favourable, because an inference is deduced that the difference is received in money.

And when the value of the whole of the merchandize which is imported by a country exceeds the value of the whole of the merchandize which is exported by it, the balance of trade is alledged to be unfavourable, because an inference is deduced that the difference is paid in money.

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According to Dr. Davenant (*a*) this theory received the sanction of our government in 1695. In his discourses on the public revenue and trade of England, he says, "a true account of the balance of trade would shew what traffics are hurtful and what are beneficial to the nation. In the first appearance, those traffics seem hurtful which export money; but when we come to reason upon things by figures, we find that such trades are beneficial, when they bring in one way more bullion than they carry out in another: we may seem to lose by the balance in one place, but perhaps that trade may be the cause of another twice as profitable; so that to object against the motion of one wheel, without knowing and seeing how the whole engine moves, is to no manner of purpose. He that would, therefore, compute with any good effect in matters relating to trade, must contemplate the wealth, stock, products, consumption, shipping, exportations and importations of his country; and, at the same time, he must consider the state and condition of other places. In this art the most difficult point is to find good materials, and to have a footing probably sure to fix our reasonings upon, for where our premises can be certain, our conclusions shall be almost undeniable; and in order to this, the House of Lords did in 1695 lay a most excellent foundation, which we hope some able head and good genius will so improve, as by this aid, to find out that balance of trade which has been so often talked of. Their lordships have directed the Commissioners of the Customs to draw out an account of all the exportations from London and

(*a*) See Dr. Davenant on the use of Political Arithmetic, page 31.

the out-ports, to every distinct country, and also of all the importations to London and the out-ports, from every distinct country, for the years 1694, 1695, and 1696, and so downwards. Every commodity is under a separate head, and the drawbacks upon re-exportation are taken notice of, and the value is set down where the duty on goods is ad valorem; and the whole is put into a very good method by the skilful hands of Mr. Culliford."

Though no public order had been previously given for a regular return of our exports and imports, and though the theory of a balance had not expressly received the sanction of government, yet its existence had been long admitted by the mercantile community; and various efforts were made by different individuals, but particularly by Sir Philip Meadows,(*a*) to ascertain its extent. But as in 1695 the scarcity of specie, from the over-issue of paper, peculiarly directed the attention of government to this subject, it was deemed necessary to lay before the public the precise state of our exports and imports, for the purpose of removing the apprehensions which were entertained that an unfavourable balance occasioned its departure.(*b*) From this period an official statement has been annually prepared by the Inspector-General and submitted to Parliament.

According to the regular series of these returns during the preceding century, the annual value of the merchan-

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(*a*) See Mr. Chalmers' Estimate, page 239.

(*b*) From these documents it appeared that the superiority of exports amounted to £43,320.

dize exported has exceeded the annual value of the merchandize imported, to the average extent of £3,000,000., (*a*) and an inference has been deduced by the advocates of the theory, that the influx of bullion uniformly corresponded with this excess; but notwithstanding the general admission of this inference, which gave to the country a stock of coin to the amount of £300,000,000., the scarcity of specie in 1797, from the same cause as in 1695, again attracted the attention of government to the subject, and a committee in both Houses of Parliament was appointed by Mr. Pitt, (*b*) who invariably approved himself a zealous supporter of the theory, for the purpose of correcting the errors of the custom-house tariff, and demonstrating to the public that the influx of foreign money, from the favourable state of our trade, considerably exceeded the sum, which the official statement announced. By the testimony of the late Mr. Irving, who so ably discharged the duties of his office, the average balance for the four years preceding 1797 amounted to £6,500,000.; but Mr. Rose in his Brief Examination (*c*) has carried this computation much further, and says "I will venture to state the probable balance of our trade to be in our favour on the average of the last four years, to the extent of about £14,800,000. per annum."

The statesmen of France have regularly drawn the same inference of a favourable balance from the superiority of exports, with the statesmen of this country, and

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(*a*) See the table of Mr. Chalmers at the head of the chapter.

(*b*) See the Report of Mr. Pitt's instructions to the Secret Committee of the House of Commons in 1797, page 100.

(*c*) See Mr. Rose's Brief Examination, page 39.

have no less exulted in its amplification. Mr. Necker (*a*) observes in his administration of the finances of France, "it is by an attentive examination of the balance of the commerce of different nations that we are enabled to form a proper idea of the annual increase of their wealth; but most of the calculations extant upon this matter are either inaccurate or imperfect." After having explained the errors of the official returns, he estimates the annual average balance of France at £3,000,000., and triumphantly remarks, (*b*) "doubtless it must be a matter of surprise that a single kingdom should be able to acquire a balance of commerce annually, the amount of which exceeds one half of the gold and silver received yearly by all Europe; and upon the first view of this prosperity of France, one might be apt to exclaim, what can she want more?" The whole of Mr. Necker's observations on commerce, on circulation, on the corn trade, and on population, betray a flagrant deficiency in the principles of political science; but crude and unenlightened as they are, his work may be deemed the manual, by which the ministers of Europe have hitherto conducted the commercial and financial regulations of their respective countries.

The same attention, which has been shewn by England and France to this theory, has been shewn by all other countries: all have prepared an official statement of exports and imports, all have asserted a favourable balance,

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(*a*) See the Administration of the Finances of France, by Mr. Necker, Vol. II. page 110.

(*a*) See Administration of the Finances of France, by Mr. Necker, Vol. II. page 147.

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and all have formed their commercial code with an exclusive view to this result.

Mr. Chalmers (*a*) has extracted the following account from the custom-house entries of 1771, 1772, and 1773, for the purpose of pointing out the average balance of our commerce during these three years to the particular places enumerated in the table.

| *Countries of favourable Balances.* | £. | *Countries of unfavourable Balances.* | £. |
|---|---|---|---|
| Denmark and Norway, | 78,478 | East Country, doubtful, | 100,230 |
| Flanders, | 780,088 | Russia, | 822,607 |
| France, | 190,605 | Sweden, | 117,365 |
| Germany, | 695,484 | Turkey, doubtful, | 120,497 |
| Holland, | 1,464,149 | Venice, doubtful, | 11,369 |
| Italy, doubtful, | 43,289 | | 1,172,068 |
| Portugal, | 274,132 | | |
| Madeira, | 9,514 | | |
| Spain, | 442,539 | | |
| Canaries, | 23,347 | | |
| Streights, | 113,310 | Favourable bal. | 3,636,504 |
| Ireland, | 663,516 | | |
| Isle of Man, | 13,773 | | |
| Alderney, | 1,229 | | |
| Guernsey, | 6,269 | | |
| Jersey, | 8,850 | | |
| | £. 4,808,572 | | |

(*a*) See the Estimate of Mr. Chalmers, page 249.

Almost all of the places, however, which are mentioned in his statement could faithfully extract from their entries a counter-rollment to shew that the balance was also in their favour during the same period.

But if the leading principle of this inquiry be correct, that money discharges its functions with fidelity as an uniform measure, it is obvious that the influx and efflux of bullion, in the customary course of commerce, can never exceed the sum which is necessary to maintain in all countries the same relative proportion of currency, and that the inference, which is deduced by the advocates of the theory, that the excess of exports necessarily leads to the introduction of money correspondent with its extent, is wholly inconsistent with reason.

This theory originated in the error, which has prevailed, even to the present day, of regarding money and wealth as synonimous terms, and conceiving that an increase or diminution of the one was only effected by an increase or diminution of the other: and to such an extent has this prejudice obtained, that scarce a sceptic has been found throughout the whole century to doubt the infallibility of the system. It has been universally established with an unfeigned and genuine conviction that it accurately demonstrated the gain or loss, which a nation derived from its commercial intercourse, and formed a body of indisputable evidence to confirm its advancement or decline in real opulence.

But even if the theory were admitted to be true, I

know not upon what ground it could be urged, that it furnished the smallest criterion of the profit or loss, which accrued to a country from its commercial relations; for as it is assumed, that the bullion, which is received, is no more than equal to the excess of exports, it is apparent, by its own shewing, that an equivalent in produce has been given for its purchase. But as a nation was conceived, in the familiar language of the times, to get rich by getting money, the receipt of the bullion was supposed to form an accession to the national capital, for such the aggregate specie of a nation was deemed, and hence was designated a favourable balance.

Notwithstanding, therefore, that the theory has been usually denominated the mercantile system, it is grounded upon a principle directly opposite to that, upon which an individual merchant forms an estimate of his private balance. The merchant draws an inference of his gains from the excess of his imports, and justly contends, that if he export produce to the value of £20,000., and import produce to the value of £25,000., he gains £5,000. by the balance. But in the instance of a national balance, no attempt is made to prove the smallest acquisition of profit; the balance sheet does not shew that more has been received than given, but only that an equivalent in bullion has been returned, instead of an equivalent in produce, for a certain proportion of the exported merchandize. The theory, therefore, does not afford a criterion of what proportion of money a nation has gained by its commerce, but of what proportion it has saved. It is not grounded upon the principle of a commercial

profit, but upon the principle of accumulation; and only implies, that if a nation sold to a greater extent than it bought, the difference is saved and accumulated in capital.

Since, then, it is the fundamental principle of the theory, that commerce enriches a country in proportion only as it leads to the accumulation of money, it is necessary that the money should be permanently detained, in order to support the position that the nation is enriched by its influx. Its re-appropriation to the purposes of trade would place the country precisely in the same position, in which it stood previously to the possession of the balance; for as an equivalent had been given for its purchase, and as no more than an equivalent can be received for it, the produce, which purchased the bullion, might, so far as the wealth of the nation is concerned, have exchanged, in the first instance, for the produce, which the bullion purchased, without its auxiliary intervention as a medium. If the bullion, which this country receives from Spain and Portugal be eventually transmitted to China for teas, the teas of China might as well exchange in the first instance for the produce, which is exported to Spain and Portugal, as exchange for the bullion, that is received for it. The transitory possession of the bullion may materially facilitate the operations of commerce, but if its export be equal to its import, there is no foundation for the conclusion that the nation is enriched by its introduction; the permanent detention, therefore, of the money received forms a necessary part of the system.

In alluding to a proclamation that was issued in the reign

of James the First, (*a*) Lord Liverpool terms the opinion which is expressed in the preamble, "that the treasure of gold and silver brought into the realm should be considered as an immoveable and perpetual stock, which should never go forth again," a strange maxim; yet he does not appear to advert, that the theory of the balance of trade, which he asserts to be self-evident, is expressly founded upon this doctrine.

In conformity, therefore, to the fundamental principle of the theory, the stock of specie in this and in every other country, where no adverse balance has intervened to counteract the accumulation, should correspond with the aggregate value of their favourable balances from time immemorial; notwithstanding that the mines of the world have never produced a competent supply for such a demand. The united produce of the American mines bears no proportion to the superiority of the exports of this country only, still less would it be adequate to satisfy the claims of the collective nations of the world.

By a retrospective view of our public entries, this country obtained, in the language of those who support the mercantile system, a continued series of favourable balances, with the interposition of scarce one sinister year, throughout the whole of the preceding century; and the aggregate balance, even by the official rate, exceeded the sum of £300,000,000. It is true that the raw supply of our gold and silver factories, and the money remitted

(*a*) See Lord Liverpool's Letter to the King, page 59.

for the payment of our foreign expenditure should be deducted from this sum. There is reason to conclude that the consumption of our manufactures during this period did not exceed the sum of £15,000,000. Upon the effect which our foreign expenditure may have had on the excess of exports I shall hereafter treat; but it is essential, in the mean time, to remark, that the public have possessed no data, that could enable them to form a just computation of our foreign expenditure. No particular document has been prepared by government relative to its foreign disbursements, nor could any correct estimate be formed of the external expenditure of individuals; little notice was, therefore, formerly taken of this subject, and as none were capable of computing its amount, an inference was uniformly drawn, that a large surplus was annually received as a favourable balance. Assuming, for the present, that this may have been the fact, I shall consider the various purposes to which it may have been applied.

The existing amount of our gold and silver coin is conclusive evidence of the small proportion, which has been realised in specie. I so fully endeavoured in the preceding chapter to prove, that our present stock did not exceed the sum of £5,000,000., notwithstanding the calculations of Mr. Rose and Lord Liverpool, that the adduction of any further reasoning in confirmation of my estimate would be wholly superfluous. If this computation bear a near affinity to the truth, instead of the existing amount of our coin giving any encouragement to the supposition, that the nation has grown rich by the balance of its trade and the accumulation of money, there is some reason

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to conclude, such has been the increase of paper, that the stock of specie, now in hand, is inferior to the quantity in circulation at the commencement of the reign, notwithstanding the vast advance of prices since that period, and the uninterrupted recurrence of favourable balances. It is evident, therefore, that the aggregate balance to the amount of £300,000,000., is not now extant in the legal currency of the country; and to imagine that any considerable proportion of it is locked up in repositories in the shape of foreign coin or bullion, according to the arguments of Sir James Steuart, is so totally inconsistent with reason, that it is unnecessary to investigate so futile a suppostion.

The consumption of our manufactures will also account for but a small part of the united balance. Dr. Adam Smith estimated the annual consumption of Birmingham at £50.000., and if the consumption of London and the other manufacturing towns, he estimated at double this sum, the quantity introduced for this expenditure to the annual extent of £150,000. will amount in a century to no more than £15,000,000.

If, then, but a very small proportion of these balances have been realised in specie, or consumed by manufacture, the remainder, if ever received, must have been re-exported. This exportation could only have taken place by means of commercial speculation, or through the foreign expenditure of government in the time of war.

On the application of bullion to commercial purposes I have already remarked, that as an equivalent must be

given for the purchase of the bullion, and as no more than an equivalent can be received for it, its transitory possession can have had no tendency to have enriched the country, however greatly it may have assisted the operations of commerce. It cannot be asserted that the nation has grown rich by the balance of its trade, if it be said that the bullion, which it leaves, is expended in commerce, as it would lead to the absurdity of contending, that the deposit could be detained, at the same time that it was sent away.

I shall hereafter attempt to prove, that a very small part of the aggregate balance has been exported for the payment of our external expenditure.

If, then, the existing stock of our specie, the consumption of our manufactures, and the foreign expenditure of our government, will occupy but a small part of the collective balances, it is evident that whatever proportion has been received above the sum applied to these purposes, must have been re-appropriated to the speculations of trade; for if the bullion, which they are supposed to have deposited, can neither be found nor accounted for, it is competent to conclude that its permanent detention has not been effected. The existing amount, therefore, of the bullion of this country, in whatever shape it may be extant, will lend but little countenance to the principle, that the nation has grown rich by the accumulation of money, or that its influx has ever exceeded that quantity, which was necessary to augment the currency of this country to the same proportion with the currency of others, and equalise the measure of value.

If a comparison were istituted in any other country between the amount of its collective balances for a given series of time, and the existing amount of its bullion, the same disparity would occur.

The conclusion, therefore, that an excess of exports necessarily conduces to the influx of bullion commensurate with its extent, is not only inconsistent with reason, but is also inconsistent with fact; and the theory of the balance of trade, which supposes that a nation grows rich by the accumulation of its money, is wholly without foundation.

[To face Page 175.

# No. 23.

## A Return to an Order of the Committee of Secrecy, dated the 24th Day of April, 1797.

For "An ACCOUNT, as far as it can be made out, of the Sums of Money paid for EXPENSES ABROAD in each Year since the Beginning of the WAR, distinguishing the several Services, and distinguishing the Money expended on the Continent of Europe, including the Imperial Loan, and the Advances made to the Emperor."

| | 1793. | 1794. | 1795. | 1796. | Total. |
|---|---|---|---|---|---|
| | £. s. d. | £. s. d. | £. s. d. | £. s. d. | £. s. d. |
| Bills drawn on the Lords of the Treasury from the Continent of Europe | 551,511 16 10 | 2,317,289 7 10 | 3,354,817 17 8 | 187,631 5 7 | 6,411,250 7 11 |
| Ditto drawn on Ditto from other Parts of the World | 110,409 16 3 | 861,176 13 1 | 1,900,550 14 1 | 4,279,457 7 7 | 7,151,594 11 — |
| Bills drawn on the Paymaster General from the Continent of Europe | 67,000 — — | 240,000 — — | 127,500 — — | — | 434,500 — — |
| Ditto drawn on Ditto from other Parts of the World | 305,645 10 8 | 510,743 — — | 747,390 7 9 | 1,030,319 9 8 | 2,594,098 8 1 |
| Remittances made by the Paymaster General to the Continent of Europe | — | — | 100,000 — — | — | 100,000 — — |
| Ditto made by Ditto to other Parts of the World | 90,566 5 10 | 9,999 18 8 | 42,333 6 8 | 32,528 — — | 175,427 11 2 |
| Bills drawn on the Office of Ordnance from the Continent of Europe | 25,060 10 2 | 72,002 4 10 | 45,368 — 9 | 16,830 — — | 159,260 15 9 |
| Ditto drawn on Ditto from other Parts of the World | 107,193 16 2 | 96,633 8 2 | 109,409 15 6 | 147,446 5 9 | 460,683 5 7 |
| Bills drawn on the Navy Office from the Continent of Europe | — | — | — | — | — |
| Ditto drawn on Ditto from other Parts of the World, and Bills issued for Stores of Foreign Growth | 566,480 6 7 | 810,391 15 8 | 1,418,762 9 9 | 1,419,725 — 8 | 4,215,359 12 8 |
| Specie sent to the Cape of Good Hope by the Commissioners of the Navy | — | — | — | 5,000 — — | 5,000 — — |
| Bills drawn on the Victualling Office from the Continent of Europe | 3,032 9 3 | 3,088 8 4 | 7,235 18 5 | 20,411 1 2 | 33,767 17 2 |
| Ditto drawn on Ditto from other Parts of the World | 51,390 9 7 | 286,128 7 8 | 403,587 14 4 | 537,039 15 — | 1,278,146 6 7 |
| Amount of Provisions and Victualling Stores sent to the Continent of Europe | — | — | — | — | — |
| Amount of Ditto and Ditto sent to other Parts of the World | 62,141 7 2 | 109,032 10 8 | 102,203 11 7 | 327,209 7 6 | 600,586 16 11 |
| Bills drawn on the Transport Board from the Continent of Europe | — | 910 6 8 | 206,186 19 2 | 3,574 16 6 | 210,672 2 4 |
| Ditto drawn on Ditto from other Parts of the World | — | 3,866 2 2 | 72,426 16 2 | 167,698 14 4 | 243,991 12 8 |
| Bills drawn on the Commissioners for sick and wounded Seamen, for the Service of Prisoners of War, from the Continent of Europe | — | — | — | — | — |
| Ditto drawn on Ditto for Ditto, from other Parts of the World | 11,880 5 6 | 80,083 8 11 | 83,634 8 8 | 61,911 19 11 | 237,510 3 — |
| Ditto drawn on Ditto, for the Service of sick and wounded Seamen, from the Continent of Europe | — | — | — | — | — |
| Ditto drawn on Ditto for Ditto, from other Parts of the World | 16,962 4 8 | 43,313 16 — | 38,641 19 7 | 56,441 16 7 | 155,359 16 10 |
| Amount of Prussian Subsidy | — | 1,223,891 10 6 | — | — | 1,223,891 10 6 |
| Amount of Sardinian Subsidy | 150,000 — — | 150,000 — — | 150,000 — — | 50,000 — — | 500,000 — — |
| Amount of Sums paid for Foreign Emigrant Corps | 651,475 15 11 | 1,267,161 19 10 | 1,503,140 17 2 | 568,473 7 4 | 3,990,252 — 3 |
| Amount of Foreign Secret Service, deducting £25,000. a year paid out of the Civil List | 14,481 8 6 | 24,335 18 — | 148,068 4 2 | 158,194 5 4¾ | 345,079 16 —¾ |
| Purchase of Neutral Cargoes | — | 225,543 8 5 | 478,977 11 7 | 1,580,023 7 9 | *2,284544 7 9 |
| £. | 2,785,232 3 1 | 8,335,592 5 5 | 11,040,236 13 — | 10,649,916 — 8¾ | 32,810,977 2 2¾ |

* From the above Sum of £2,284,544. 7s. 9d. should be deducted the Sum of £942,608. 7s. 2d. being either Sums paid on Account of Government, the Produce of Neutral Cargoes already sold, or the Value of such Cargoes delivered for the Service of Government.

Loan and Advances to the Emperor † £5,570,000.

Whitehall, Treasury Chambers,
the 24th of April, 1797.

CHARLES LONG.

† This ought to be £6,570,000. See the Returns, page 185.

| | £. |
|---|---|
| In the Year 1794 | 550,000 |
| 1795 | 4,600,000 |
| 1796 | 1,420,000 |
| | 6,570,000 |

J. W.

# CHAPTER VIII.

*On the Payment of our foreign Expenditure.*



HAVING attempted in the preceding chapter to expose the fallacy of the current opinion, that an excess of exports is conclusive evidence of the influx of money, commensurate with its extent, I shall endeavour to account for this uniform result in the balance sheet of our commmerce by an inquiry into the payment of our foreign expenditure.

Upon the grant of a subsidy to a foreign power, an alarm has at all times been excited by the supposition that the remittance of money was necessary for its payment. This opinion is derived from the same error, which originated the various tenets, upon which the theory of the balance of trade is constructed, the familiar habit of regarding the intrinsic property of money as an object of value, without adverting to the attribute, which has been conferred upon it in consequence of this property, of forming the common standard of mensuration, and constituting the mean, by which all value is expressed. When it is asserted, in the customary language of conversation, that such a measure requires so much money, the money is conceived to be the specific object in demand, and instead of being considered as the medium, by which the

means for the execution of the measure are estimated, is immediately concluded the sole and indispensible requisite to its completion. But the subsequent argument will shew, not only that the efflux of money is not necessary for the discharge of a foreign expenditure, but that the influx of money may be effected during the whole period that it is in payment.

A foreign expenditure may be paid by the four following channels: 1. By the export of specie; 2. By the export of bullion; 3. By the purchase and remittance of bills from this country against the continent; and 4. By the draft of bills from the continent against this country.

Upon the grant of a subsidy, a commercial house of extensive connections is usually appointed agent to transact its remittance, with full powers to elect whatever channel may appear the most favourable; this channel is determined by the state of the exchange.

If the exchange were unfavourable, if by the partial excess of our currency and consequent superiority of our prices, the same sum were made to measure in this country a less value than it measured in others, and £100. in London were worth no more than £95. in Hamburgh, I have already shewn, in the chapter on exchange, that the bills upon Hamburgh would sell in our market at five per cent. premium, because the superiority of the prices of this country would otherwise give a profit of five per cent. above the customary charge of commission, upon the importation and sale of the produce of the continent;

and that the bills upon this country would sell in the Hamburgh market at five per cent. discount, because the inferiority of the prices of the continent would otherwise occasion a loss of five per cent. upon the importation and sale of our produce. If, therefore, pending an unfavourable exchange, the bills upon Hamburgh sold at a premium, and the bills upon this country sold at a discount beyond the expense of remitting in specie, the agent who undertook the payment of the subsidy would naturally prefer the vehicle of specie to the vehicle of bills. The charge of remitting in specie from this country to Hamburgh is from two and a half to three per cent.; if, therefore, it were impracticable, from the relative excess of our currency, to remit by bills at a less expense than five per cent., he would necessarily resort to a clandestine exportation of specie for the purpose of saving the difference.

If the exchange were at par, if by the same relative amount of currency, and consequent correspondence of prices, a given sum in this country measured the same value as a similar sum on the continent, and £100. in London were equal to £100. in Hamburgh, the bills that were drawn from the one place on the other would sell without a premium or discount, and the agent who transacted the remittance of the subsidy would prefer the vehicle of bills to the vehicle of specie, as he would save the charge of the transit of specie.

But if the exchange were favourable, if by the partial compression of our currency, and consequent inferiority of our prices, the same sum were made to measure in

this country a greater value than it measured in others, and £95. in London were worth an £100. in Hamburgh, the bills that were drawn from Hamburgh upon this country would sell at five per cent. premium, and the bills that were drawn from this country against Hamburgh would sell at five per cent. discount, and the agent would be led more strongly to prefer the vehicle of bills to the vehicle of specie, as the preference would secure an advantage of five per cent., and give to our ally, if the subsidy were £1,000,000., £1,050,000.

If, then, the agent were uniformly left to his own discretion to elect the most favourable channel, he would be implicitly determined by the state of the exchange, and invariably remit by bills or specie, as its elevation or depression prescribed. But from a singular fatuity the Bank of England have occasionally obstructed the regular course of the transaction, and to their own exhaustion and the injury of our allies, have directed the efflux of bullion for the payment of a subsidy at the very time, that the exchange has been favourable, and that our goldsmiths have been effecting its influx. If the exchange between Hamburgh and London were five per cent. in favour of London, though the market price of money would in consequence be reduced below the mint price, and bullion would be cheaper than our coin by about two per cent.; yet it would manifestly be the duty of the agent to transact the payment of the subsidy as already shewn, by the draft and remittance of bills, which would secure to our ally a gain of five per cent., instead of discharging it by the purchase of bullion at an

advantage of two per cent., and delivering it at Hamburgh to a disadvantage of three per cent., as our ally would sustain a loss of one per cent. upon the whole sum remitted, instead of acquiring a gain of five per cent. The interposition, therefore, of the Bank of England for the diversion of the transaction from its natural channel is not more injurious to their own interest, than to the interest of the court, to whom the subsidy is granted.

In every instance, however, where this interposition was withheld, it is obvious, from the preceding statement, that if by the partial contraction of our currency, and consequent inferiority of our prices, the same sum were made to measure in this country a greater value than it measured in others, and the course of exchange were favourable, the vehicle of bills would necessarily be preferred to the vehicle of either bullion or specie.

But it is very generally conceived that a large foreign expenditure and a favourable exchange are totally incompatible with each other; and though it were even admitted to me, that in the customary relations of commerce the effectuation of inferior prices by the compression of our currency would cause the bills that were drawn upon this country to sell at a premium correspondent with the difference, and establish a favourable exchange, yet it may be contended, that the grant of a foreign subsidy to a considerable amount would raise the bills, that were purchased in this country and remitted for its payment to a premium, and reduce the bills that were drawn from the continent to a discount, notwithstanding the inferiority of our prices; and turn the exchange against us.

But if the prices of this country were five per cent. below the prices of the continent, and £95. in London were worth £100. in Hamburgh, the natural discount of the market upon Hamburgh bills would obviously be five per cent., as from the relative inferiority of our prices a discount of only four per cent. would entail upon the purchaser a certain loss of one per cent. upon the importation and sale of the produce in which the bills were invested. If, therefore, for the purpose of immediate payment, the British agent of the court, to whom the subsidy was granted, were disposed to remit at four or three per cent. discount, and give £96. or £97. for what was only worth £95., the dealers in bills at home would be sufficiently zealous to sell the requisite supply, as by purchasing in the market at the current discount, to answer the payment of the bills, which they drew, they would secure a profit to themselves of one or two per cent. upon the whole sum granted. And if, while from the same inferiority of our prices, the bills against this country were advanced on the continent to a premium of five per cent., the foreign agents of our ally were disposed to draw at only three and four per cent. advantage, the dealers in bills abroad would be as zealous to purchase, as the dealers at home to sell, since by disposing of the bills in the market at the current premium, they would in the same manner secure a profit to themselves of one or two per cent. upon the whole sum purchased. The remittance of the subsidy would, therefore, be transacted by the dealers in bills, without the slightest innovation on the price of the exchange, which would regularly correspond with the respective value of money in the two

places. So long as this country should continue to possess the same relative deficiency of currency, the exchange would continue to hold the same advantageous position; and as the payment of the subsidy by the dealers in bills would have no operation to alter, in either place, the relative amount of the circulation, it would have no operation to disturb the exchange.

Since, then, the occurrence of a foreign subsidy would have no effect to alter the natural state of the exchange, not only is it practicable, as already shewn, that its posture should be so far favourable as to preclude the efflux of money, but it is practicable, that it should be favourable to such an extent as to cause the influx of money in any quantity, at the very time that the subsidy was in payment.

If by a due compression of our currency the prices of this country were reduced to an inferiority of three per cent. below the prices of others, and the exchange in consequence attained to a correspondent elevation, I have already explained that the vehicle of bills would be preferred to the vehicle of specie, as the one would occasion an advantage, and the other a disadvantage of three per cent., and that no money would under such circumstances be remitted; but if by the further compression of our currency the prices of this country were reduced to a relative inferiority of five per cent. below the prices of others, not only would not our money be exported, but foreign money would be imported, notwithstanding the supposed counteraction of the subsidy, to reduce the value of our money to a correspondence with its value

elsewhere; for as a bill against the continent would sell in our market at a discount, and a bill against this country in the foreign market at a premium beyond the charge of the transit of specie, the influx of bullion would be effected both by the importation of our goldsmiths who would purchase bills against the continent, and order their investment in bullion, to take advantage of the discount; and by the exportation of the goldsmiths of the continent, who would draw bills against the money which they remitted to this country, to take advantage of the premium; till by their respective operations a sufficient sum of specie were (*a*) introduced to raise the prices of this country to a correspondence with the prices of others, and restore the exchange to par. The favourable exchange of 1793, 1797, and 1798, during the last war, which led to the influx of money at the very time that our foreign expenditure amounted to £8,000,000. a year, is conclusive evidence to attest the validity of this reasoning.

The opinion, therefore, that the departure of money is necessary for the payment of a foreign expenditure, is wholly without foundation, as in every instance where a partial contraction of currency should raise the value of money in this country to a partial superiority above its value elsewhere, produce would invariably be preferred to specie.

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(*a*) In the present circulating system of Europe, which is so largely composed of paper, the level of money is maintained more by the contraction or augmentation of paper, to which the efflux and influx of money conduce, than by the mere deduction or addition of specie occasioned by the fluctuation of the exchange.

It is of peculiar importance to the interests of this country that this opinion should be completly exploded. Its unfortunate prevalence has uniformly tended to narrow the liberality of our government in its subsidiary treaties with foreign powers, and has prevented the contribution of that assistance in its continental wars, which was essentially necessary for the attainment of the common object. The memorable correspondence between Mr. Pitt and the Directors of the Bank of England during the late war, while our subsidiary negociations were pending, will sufficiently illustrate the truth of this observation.

I greatly regret that in these reflections on the financial principles of Mr. Pitt it is not in my power to sanction the public opinion in favour of his due understanding and correct administration of the resources of his country; but nothing can be further from my intention in this review than to detract from his general merit as a statesman. I regard him, and I am most confident that he will be regarded by posterity as one of the greatest characters that this or any other country has produced. No man ever approached perfection more nearly; he had every qualification, that was requisite in virtue, in talent, and in conduct, for the consummation of excellence. In public life he was of an ardent and disinterested patriotism, of unsullied integrity, of invincible resolution, and of inviolable fidelity in his political engagements; and in private, he was every thing, that a characteristic nobleness of nature, a manly and benevolent disposition, a strict regard to principle, and a high sense of honour,

could make him. In ability he never was and never will be surpassed. His mind was formed by the hand of a master, who destined him for the government of his country, and no mind ever put forth more extraordinary qualities. In business, in council, and in debate, his superiority was equally transcendant; though his pre-eminence appeared more particularly conspicuous in parliament. His matchless powers were there shewn in all their greatness, by a display of eloquence, of which there had been no example: he was clear and perspicuous, impassioned and vehement, splendid and sublime, as the varied nature of his subject dictated, and in narrative, argument, and invective, was alike incomparable. In conduct, he did all, that the utmost talent, combined with the utmost virtue, could do; nor in a public career of four-and-twenty years, exposed to the severest scrutiny, is it possible for an enemy, if an enemy he have, to fix upon a word or deed unworthy of his name. Should I then be led by the natural current of my argument to some conclusions unfavourable to his financial principles, it will not, I trust, be imputed to proceed from any disrespect to his memory, which I most sincerely venerate.

In the commencement of the year 1795, when a negociation was opened for the advancement of a loan under the guarantee of parliament to the Emperor of Germany, the Directors of the Bank strongly remonstrated against its adoption, from the drain which they concluded that it would occasion on their deposits. There are no documents, by which the precise amount of the pecuniary aid, which the court of Vienna required, can be ascertained; but as it was, in the first instance, in contemplation to

raise the sum of £6,000,000., it is competent to presume that an advancement somewhat exceeding this sum had been requested. In consequence, however, of the remonstrances, which the Bank of England tendered against so considerable a grant, this sum was subsequently reduced to £4,600,000., of which £550,000. were reserved by our government for the reimbursement of the advances in the preceding year. The amount, therefore, remitted to Vienna did not exceed £4.000,000.; and as this remittance was utterly inadequate to support the efforts of its government, the most pressing solicitations were made, before the close of the year, for a further supply, which it was well known that our ministers were disposed to favour. As the grant, therefore, of a further loan became extremely probable, the Court of Directors took an early opportunity to prepare the mind of Mr. Pitt for the opposition, which they conceived it their duty to give to it; and upon an application for an advance of £2,500,000., on the credit of the Consolidated Fund, they accompanied their compliance with the following observations:

"*Bank of England, Oct. 8th,* 1795.

(*a*) "The very large and continued drain of bullion and specie, which the Bank has lately experienced, arising from the effects of the loan to the Emperor, and other subsidies, together with the prospect of the demand for gold not being likely soon to cease, has excited such apprehensions in the Court of Directors, that on the most serious

(*a*) See the Report of the Secret Committee of the House of Lords, page 152.

deliberation they deem it right to communicate to the Chancellor of the Exchequer the absolute necessity they conceive to exist for diminishing the sum of their present advances to government.

"It must occur to Mr. Pitt's recollection, that last January the Governor and Deputy Governor of the Bank did by instructions from their court, formally announce to him their apprehensions of the consequences that were likely to ensue from the Imperial loan taking place. The events seem fully to justify their fears, and to render every measure of caution necessary for their future safety."

"The present price of gold being from £4. 3*s*. to £4. 4*s*. per ounce, and our guineas being to be purchased at £3. 17*s*. 10½ an ounce, clearly demonstrates the grounds of our fears, it being only necessary to state these facts to the Chancellor of the Exchequer."

This paper was a sufficient indication to Mr. Pitt of the resistance, which the Bank would make to the remittance of any further aid, and will fully account for his cautious reserve in the interview, which occurred on the 23d of the same month. In this interview, as stated in the Report, (*a*) "the Governor mentioned his having heard that there might be annexed to the ensuing loan one of £1,400,000. for the Emperor of Germany, and stated

(*a*) See the Report of the Secret Committee of the House of Lords, page 153.

that in such a case it would be highly proper for the Bank to have some intimation of it, that they might adopt such arrangements as the measure would render absolutely necessary. The Chancellor of the Exchequer replied, that he had not at present the most distant idea of it, though he did not pledge himself that on no occasion such a thing might happen. The Governor thanked him for his answer, which he told Mr. Pitt he received with pleasure, thinking as he did that another loan of that sort would go nigh to ruin the country. The Governor also acquainted him that the drain of cash continued, and was likely to do so while the bills from abroad continued to be drawn on the Treasury."

Notwithstanding, however, this disavowal of Mr. Pitt, the report that another loan was in agitation still prevailed; and on the 18th of November, when another interview took place, the (*a*) "Governor informed Mr. Pitt that the present price of gold was £4. 2*s*. an ounce, and that the daily large drains of specie from the Bank filled the minds of the Directors with serious apprehensions; and that in the present situation of their affairs, he must not rely on any aids from them, not even the vote of credit and supply bills."

(*b*) "The Governor then hinted to Mr. Pitt his apprehensions from a rumour, that a further loan to the Emperor was in agitation, notwithstanding the assurances which

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(*a*) See the Report of the Secret Committee of the House of Lords, page 153.

(*b*) See the same page of the same Report.

Mr. Pitt gave him some time back, that he had not then the most distant idea of such a measure. The Chancellor replied, that he then had not such a thought, from the tardy and slow operations of the Austrians; but the face of things having since changed, and the Austrian army having been of late very successful, he confessed it was his opinion that a continuance of such exertions was the surest way of distressing the French, and bringing them to proper terms of peace: and on this ground ministry now had it in contemplation to let the Emperor have another loan not exceeding £2,000,000.; but he added, that should the situation of the Bank be such as to make this measure a very hazardous one, he would, in compliance with our request, overlook every other consideration, and abandon the loan."

But as the Directors from some information were led to conclude that Mr. Pitt persisted in his intention of making a further advance to the Emperor, notwithstanding their representations, and that the loan was to be augmented to £3,000,000. they passed on the 3d of December the following resolution:

(*a*) "That the Court of Directors, after a very solemn deliberation adequate to the importance of the subject, are unanimously of opinion that should such a loan take place, they are but too well grounded in declaring, from the actual effects of the Emperor's last loan, and the continued drain of specie and bullion they still experience,

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(*a*) See the Report of the Secret Committee of the House of Lords, page 144.

that they have the most cogent reasons to apprehend very momentous and alarming consequences."

"They are therefore led to hope (after expressing their acknowledgments to the Chancellor of the Exchequer for having hinted that the welfare and safety of the Bank should in this matter supersede every other consideration) that he will be pleased to lay aside the adoption of such a measure, which they beg leave to repeat, would be, in their opinion, most fatal in its consequences."

Upon the communication of this resolution to Mr. Pitt, the evidence goes on to state, (*a*)

"The Chancellor of the Exchequer perused this paper with great attention repeatedly, and said, that certainly as matters were there stated he should not think at present of bringing forward such a measure, adding that though he should in opening the budget make it known, that he made reserve with the present contractors for the loan to permit the Emperor's raising £3,000,000., should circumstances require it, he should lay aside all thoughts of it, unless the situation of things relative to the Bank should so alter as to render such a loan of no importance or inconvenience to them in perspective."

It does not, however, appear that Mr. Pitt abandoned all hopes of bringing the Bank to a concurrence in the measure, as in the interview which took place on the 5th of

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(*a*) See the Report of the Secret Committee of the House of Lords, page 146.

CHAPTER VIII.

February 1796, the evidence records, (*a*) "Mr. Pitt again dwelt much on the necessity of some further support to be given to the Emperor to enable him to continue his efforts against the French, as the most probable means of bringing the war to an end: but knowing the sentiments of the Bank to be against any such assistance in money, he promised that he would not commit himself to any engagement for a further loan to the Emperor, without a previous communication on the subject with the gentlemen of the Bank." But as it is evident from this minute of the interview, that the efforts, which he made to convince the Directors of the necessity of the loan were not successful, the arguments which he adduced, and which were probably enforced with much earnestness, had no other effect than to apprise them that he had not relinquished the prosecution of his design: they therefore came to the following resolution, for the purpose of protesting against any responsibility for the consequences that might ensue.

RESOLVED, *11th of February* 1796.

(*b*) "That it is the opinion of this Court, founded upon its experience of the effects of the late Imperial loan, that if any further loan or advance of money to the Emperor, or any other foreign state, should in the present state of affairs take place, it will in all probability prove fatal to the Bank of England."

"The Court of Directors do, therefore, most earnestly

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(*a*) See the Report of the Secret Committee of the House of Lords, page 157.

(*b*) See the same Report, page 145.

deprecate the adoption of any such measure, and they solemnly protest against any responsibility for the calamitous consequences that may follow therefrom."

Upon the communication of this resolution, Mr. Pitt replied,(*a*) "that after the repeated intimations which he had given to the Governor and Deputy Governor of the Bank that no further loan to the Emperor would be resolved on without previous communication with the Bank, and a due consideration of their circumstances, he did not see any reason for this resolution; that he did suppose it was adopted in a moment of alarm, and that he should consider it in that light."

The early representation, which the Bank made upon the first rumour of a loan, of their exhausted condition, the repeated remonstrances, which they tendered against its adoption while it was in contemplation, and the solemn protest with which they closed their communication, impressed the mind of Mr. Pitt with so full a conviction of its dangerous tendency, that though they did not compel him to relinquish altogether the advancement of a subsidy, they unfortunately misguided him, to the great disappointment of the house of Austria, and the irretrievable prejudice of the common cause, to narrow the supply from £3,000,000. to £1,400,000., at a time when we were fully and abundantly competent to furnish any aid which the exigencies of our ally required. This sum was remitted to Vienna with needless secrecy by the house of Boyd and Benfield.

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(*a*) See the Report of the Secret of Committee of the House of Lords, page 146.

No doubt can therefore be entertained but that our foreign supplies in the last war were materially straitened by the fallacious representations of the Bank of England, and the fatal error, with which Mr. Pitt was impressed, that the departure of money was necessary for their payment; and though I would not go the length of asserting, that the fortune of the war would have been totally changed, that the arms of Austria would have triumphed, and France been reduced, had the necessary subsidies been granted; yet when it is considered how nearly the balance was maintained by the noble efforts of Austria, notwithstanding the inadequate support which we contributed, it is not too much to say, that the unfortunate treaties of Campo Formio and Luneville (*a*) would never have been signed.

It is not, however, necessary for my argument, that the extent of the benefit, which a more consistent supply would have conferred, should be distinctly defined; it is sufficient to have shewn, that it was the earnest and zealous wish of our government to have contributed a more important aid, and that this wish was defeated by the difficulty, which was supposed to have existed in the effectuation of more liberal remittances from the want of money.

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(*a*) The peace of Presburg is another confirmation of my argument. In one of the dispatches of the Court of Vienna, antecedently to the war; it was expressly stated that the tone of Austria to the French government would be precisely correspondent to the extent of the English subsidy; yet though the fate of Europe hung upon the supply, how inadequate, how pitiful were our advances! See the papers laid before the House of Commons by Lord Castlereagh.

In the whole of this communication with the Bank of England, Mr. Pitt evinced a singular disacquaintance with the principles of public economy; and as all practice must be imperfect unless the grounds, upon which it should proceed be understood, he was necessarily erroneous in action. Of the real resources of his country, of the theory of circulation and exchange, and of the governing cause of the efflux and influx of money, his conceptions were wholly illusive. All the fond and idle sophisms of the old school, all the fallacies of a Steuart, a Liverpool, and a Rose respecting the importance and indispensable intervention of money had complete possession of his mind, and every effort, which he made to rescue himself from his difficulties, was instantly subdued by the never-absent thought that money was wanting.

Had he rightly understood the functions of money, he would have known that a due compression of our paper circulation would have led to its influx at the very moment, that the loan was in payment, and would have glutted the country with specie, notwithstanding the drain, which the grant of the subsidy was loosely concluded to occasion. The very remonstrances, which the Bank presented to his consideration, contained in themselves a solution of the real cause, which effected the run for gold; for though they attributed the demand to the Imperial loan, and conscientiously attributed it to this cause, yet they uniformly attached to their representations an account that the price of gold was £4. 3*s*. and £4. 4*s*. an ounce, while their guineas were to be had at £3. 17*s*. 10½*d*.; and if Mr. Pitt had inquired, whether this superiority in the market price of our money above its mint price had not very fre-

quently and constantly occurred in the time of peace as well as in the time of war, from the foundation of their charter to the moment that he was addressing them ; and whether an inferiority in the market price of our money below its mint price had not sometimes occurred in the time of war, notwithstanding the imaginary drain of a large foreign expenditure, he would have satisfactorily refuted their assumption, that the run for gold was attributable to the Imperial loan. I have already endeavoured to shew that the superiority in the market price of money exclusively arises from a relative surplusage of circulation, and the inferiority from a relative deficiency. If, therefore, Mr. Pitt had with providential circumspection obstructed the excessive utterance of the paper, with which the country was inundated, he might have caused the influx of money to any extent, at the same time that he was forwarding the succours, which consistently with the real resources of this country it was our duty to have given, and which the produce that was clogging our markets from an inadequate vent, was immediately competent to pay. But instead of being actuated by this policy, at the same moment that he was transacting his remittances, he was pressing the Bank for a further publication of their paper, and aggravating the cause of their exhaustion.

Upon the conduct of the Bank Directors I shall make no comment: however much it may be regretted that they were not enlightened by a purer policy, it is impossible to complain of the representation, which they made under the existing impression of their minds. They were solely actuated by a sense of duty, and the blame is

not imputable to them for uttering their remonstrances, but to Mr. Pitt for obeying them. Though to such an extent did they urge their objections, that had their opinion been fully acted upon, no money would have been raised for the service of the war beyond our own shores. It has already been stated, that they remonstrated against the two loans to the court of Vienna in 1795 and 1796. In the commencement of the year 1797, when it was in contemplation to raise a loan of £1,500,000. for Ireland, they again remonstrated, and presented to Mr. Pitt the following resolution:

"10*th February*, 1797.

"RESOLVED,

(*a*) "That the Court is extremely apprehensive that the negociating the proposed loan for Ireland in this country will necessarily endanger the safety of the Bank of England by the large drain of cash which it must occasion for the remittance of that sum to Ireland."

As it is essentially necessary that the erroneous doctrine which dictated the spirit of the preceding communication should be fully refuted, and that my argument should be supported by the evidence of facts, I shall take a practical view of our foreign expenditure and exchange during the last war, for the purpose of explaining the fallacy of the fears, with which Mr. Pitt and the Directors were actuated, and of confirming the truth of my reasoning.

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(*a*) See the Report of the Secret Committee of the House of Commons, page 192.

The course of exchange between London and Hamburgh for the five years preceding 1799, was according to Lord King's Tables as follows:

| | 1794. | 1795. | 1796. | 1797. | 1798. |
|---|---|---|---|---|---|
| Jan. | 35 10 | 34 6 | 32 7 | 35 6 | 37 11 |
| Feb. | 36 1 | 36 0 | 33 6 | 35 2 | 37 8 |
| March | 36 4 | 35 10 | 33 2 | 35 8 | 37 7 |
| April | 36 5 | 35 4 | 34 8 | 36 8 | 37 8 |
| May | 36 7 | 34 4 | 33 10 | 36 2 | 37 4 |
| June | 34 7 | 33 6 | 34 0 | 36 4 | 37 6 |
| July | 35 6 | 32 10 | 33 7 | 36 9 | 37 10 |
| Aug. | 35 10 | 32 4 | 33 11 | 36 7 | 37 6 |
| Sept. | 35 0 | 32 6 | 33 7 | 37 10 | 37 6 |
| Oct. | 35 5 | 32 10 | 34 0 | 37 8 | 37 10 |
| Nov. | 34 5 | 32 10 | 34 6 | 37 10 | 37 10 |
| Dec. | 35 0 | 33 2 | 34 10 | 38 3 | 37 3 |

The par of exchange between London and Hamburgh, by the evidence of Mr. Boyd, is 34*s*. 3*g*., 34 schillings and 3 grotes containing the same quantity of silver as a pound sterling; and as one schilling in 33, or 3 per cent., is sufficient to cover the charge of transit, our money may be exported without loss when the exchange is 33 3, when a bill upon Hamburgh sells at a premium, and £100. in London is worth no more than £97. in Hamburgh; and foreign money may be imported without loss when the exchange is 35 3, when a bill upon Hamburgh sells at a discount, and £100. in this country is worth £103. in Hamburgh.

The external expenditure of this country in succours to foreign powers consisted in 1794 of a subsidy to the

King of Prussia of £1,223,891. 10*s.* 6*d.*, and an advance to the Emperor of Germany of £550,000.; and in 1795 of a loan to the Emperor of Germany of £4,600,000; and in 1796 of a further loan of £1,400,000. Mr. Harman was appointed agent to the court of Berlin, and Mr. Boyd to the court of Vienna.

The four channels by which these remittances could be made, have already been explained to be the export of British specie, the export of bullion, the draft of bills from the agents abroad upon the agents of this country, and the purchase and remittance of bills by the agents of this country against different commercial houses on the continent.

Since, then, the charge of remitting in specie from this country to the continent is 3 per cent., so long as bills could be purchased against Hamburgh at a less premium than 3 per cent., and so long as the bills that were drawn by the foreign agents would sell at a less discount than 3 per cent., it was not for the interest of the courts of Berlin and Vienna that a remittance in British specie, or bullion, should be made. But throughout the greater part of the year 1794 the minutes of the exchange conclusively attest, that the bills upon Hamburgh were current at a discount of 4 and $4\frac{1}{2}$ per cent., instead of at a premium, and that the bills upon this country were current at a premium of 4 and $4\frac{1}{2}$ per cent. instead of at a discount. Bills of exchange, therefore, evidently constituted the most favourable vehicle of payment, as they caused an addition instead of a deduction, and would have

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produced to the court of Berlin £1,248,000. instead of (a) £1,200,000., and to the court of Vienna £572,000. instead of £550,000. The next favourable vehicle was bullion; for as the state of the exchange allowed a small per-centage profit upon its import, notwithstanding the imaginary contravention of our foreign expenditure, the market price of money was necessarily reduced below the mint price, and silver was at 5*s.* 1*d.* an ounce. The remittance, therefore, by silver bullion occasioned a loss of 1½ per cent.; for as it was purchasable at 1½ per cent. below the mint price, and as the charge of transit was 3 per cent., the loss upon delivery was consequently 1½ per cent. This vehicle would have therefore produced to the court of Berlin £1,182,000. instead of £1,200,000.: and to the court of Vienna £541,000. instead of £550,000. and the least favourable vehicle was British specie, as it could not be delivered at Hamburgh without a loss of 3 per cent., and would have produced to the court of Berlin no more than £1,164,000. instead of £1,200,000., and to the court of Vienna no more than £533,500. instead of £550,000.

The Prussian subsidy was paid in bills and bullion; £500,000. in bills at an advantage of £20,000., and £700,000. in bullion to a disadvantage of £10,500., which produced together £1,209,000. But as its exclusive remittance in bills would have given to the court of Berlin £1,248,000., it is impossible to frame any adequate

(a) I have taken the subsidy to the King of Prussia at £1,200,000. instead of at £1,223,891. 10*s.* 6*d.* for the sake of an even number.

apology for the singular interpostion of the bullion: and as it is evident that Mr. Harman would not of his own accord have selected this channel for the remittance, it is necessary to refer to the Bank of England for an explanation of his conduct. The preceding resolutions sufficiently manifest the concurrent sense of the Directors on the tendency of a foreign expenditure to exhaust them of their specie; and the minutes of the evidence in the body of the Report clearly shew the opinion, which they hold, that if a subsidy be not in the first instance paid in specie, it will infallibly prevent the influx of bullion to its extent by a proportionate diminution of the balance of trade. On the first appearance, therefore, of the probability of a grant to a foreign power, and without due observance of the state of the exchange, or the slightest attempt to bring it to an advantageous position by the regulation of their paper, they uniformly collect a supply of bullion for the purpose, and tender it at once as the means of disbursement. Had not their attention been wholly engrossed by the preposterous conclusion, that the country must sustain an actual loss of so much money by the event of the subsidy, it is impossible to conceive that they would have directed the efflux of bullion to the mutual detriment of themselves and the court of Berlin, at the very time that our goldsmiths were effecting its influx by the purchase of bills upon Hamburgh at from 4 to 5 per cent. discount. They well knew that in the existing state of the exchange, the private remittances of individuals would have been exclusively made in bills, and it is singularly inconsistent that they should have selected a channel for public payments that was a direct violation

of the principle upon which each would have transacted his own. It may, however, be imagined, that though a sufficiency of bills could easily be procured for private purposes, it was impracticable to obtain an adequate quantity for so large a remittance as £1,200,000.; but I have already explained the facility with which the dealers in bills for a slight per-centage profit will negotiate the remittance of money to any extent; and it can scarcely be contended that while they were buying at a premium on the continent, and at a discount in this country, the channel was closed against further supply. Our foreign expenditure for other services during this year amounted to £7,111,700. 14*s.* 11*d.*, the payment of which occasioned no perplexity, as the records of the exchange sufficiently shew, that the bills which were purchased in the home market for remittance were bought at 4 and 5 per cent. discount, and the bills that were drawn from the continent were sold at 4 and 5 per cent. premium.

Nor was any difficulty experienced in the payment of the £550,000. to the Emperor of Germany, the remittance of which was conducted with greater address than the remittance of the Prussian subsidy. It is probable, indeed, that the aid which the Bank had contributed to Mr. Harman released Mr. Boyd from the disadvantage of their protection, as the whole of the advance, by the forbearance of their interposition, was remitted in bills to a profit of four per cent., and produced to the court of Vienna £572,000. instead of £550,000.

So far, therefore, was the joint remittance of the subsidy

and advance of £1,700,000. to our allies in the year 1794 from occasioning a drain of English guineas, or a necessary drain of bullion from this country, that it is evident from the state of the exchange and the market price of money, that our goldsmiths were conducing to the influx of bullion at the very time that the Bank were directing its efflux; and that our bills were current at a premium throughout the whole year, notwithstanding the supposed incompatibility of a favourable exchange with a large foreign expenditure.

In 1795, though the loan, that was raised for the Emperor of Germany amounted to £4,600,000., the sum remitted was somewhat below £4,000,000., as the surplus was retained for the advances of the preceding year, and interest; and as from January to July the exchange fluctuated from 36 to 33-6, or from $5\frac{1}{4}$ per cent. above par to no more than $2\frac{1}{4}$ per cent. below par, whatever proportion was remitted in this interval was evidently remitted by the vehicle of bills; for as so long as the exchange continued above par the remittance in bills afforded a manifest advantage, and so long as its depression below par did not exceed $2\frac{1}{4}$ per cent., the remittance in bills afforded a less disadvantage than the remittance in specie, it may be safely concluded, that the channel by bills was preferred. But in July the exchange fell to 32-10, or to $4\frac{1}{4}$ per cent. below par, and as a bill upon Hamburgh consequently sold at a premium of 4 and $\frac{1}{4}$ per cent., and a bill upon this country at a correspondent discount, it obviously became more advantageous to remit in specie, the transit of which was only 3 per cent. From

the 21st of July, therefore, in 1795, to the 11th of February in 1796, when the exchange again rose to 33-6, or to 2 and ¼ per cent. below par, it appears by the evidence contained in the Reports of the Secret Committees, that remittances were made in money. It is, however, stated by (*a*) Mr. Boyd that this money was exclusively composed of foreign coin, of Spanish dollars and Louis-d'or, and a small proportion of silver and gold in bar. "Remittances," he says, "in British cash being interdicted by law, we remitted in bullion and in bills of exchange, as we happened to find the one or the other most convenient and most advantageous for the court of Vienna. Of the bullion that was remitted, by much the greatest part consisted of silver bullion, principally Spanish dollars: the amount remitted in silver was £1,043,000., and about £150,000. in gold bullion, principally Louis-d'or. The greatest part of the bullion, both gold and silver, was purchased of the Bank of England, and all of it through the intervention of the confidential Bank broker." The character of Mr. Boyd is a sufficient pledge for the truth of this statement, and it is therefore necessary to presume that the Bank of England furnished the bullion considerably below the market price; for as during this period, by the express communication of the (*b*) Directors, the market price of gold was from £4. 2*s*. to £4. 4*s*. an ounce, or from 5 to 7 per cent. above the mint price; and as the

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(*a*) See the evidence of Mr. Boyd in the Report of the Secret Committee of the House of Lords, page 107; and in the Report of the House of Commons, page 50.

(*b*) See the Report of the Secret Committee of the House of Commons, page 152.

average market price of silver was, according to Lord King's tables, 5*s*. 5*d*. an ounce, or 5 per cent. above the mint price, it is evident that a remittance in bullion, the charge of transit included, must have been made at a loss of 8 per cent. Unless, therefore, the Bank had supplied the bullion at a lower price than it could have been procured in the market, the vehicle of bills, which were only at 4 per cent. premium, would have formed a more favourable mode of transfer; and it is certainly probable that the Bank might have been induced to have submitted to this sacrifice from a well-grounded apprehension that the goldsmiths would have granted the bills at the current premium, and have drawn the money from them for foreign remittance to answer their payment. But this accommodation is mere conjecture; the only conclusion, which for the consistency of my principles it is necessary to deduce, is, that if the bullion were purchased of the Bank at the market price without abatement, it must have formed a much more disadvantageous remittance than British specie or bills, as our coin could have been delivered at Hamburgh at a deduction of 3 per cent., and bills at a deduction of 4 per cent. The repugnance, however, which Mr. Boyd evinced to evade the laws of his country, is but little felt by the commercial world; and at the very time that he was remitting in bullion, (*a*) Mr. Pitt read to a deputation of the Bank some extracts of letters from the British Resident in Hamburgh

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(*a*) After reading these extracts Mr. Pitt intimated that measures should be taken by government to counteract the export of specie!!! See the Report of the Secret Committee of the House of Commons, page 157.

which mentioned, " that large quantities of English guineas were imported thither by the packets from Yarmouth."

Pending, therefore, an unfavourable exchange, while the bills that are drawn from this country against the continent are advanced to a premium above the charge of remitting in specie, and the bills that are drawn from the continent against this country are reduced to a correspondent discount, there is no doubt but that, upon the event of a subsidy, a remittance by money will be preferred to a remittance by bills, and that a drain will be effected on the Bank to furnish the requisite supply. But it is not, therefore, to be concluded, that the grant of the subsidy has caused the depression of the exchange, that the bills abroad are reduced to a discount from excess, and the bills at home elevated to a premium from scarcity: for so long as the exchange should continue in a state of depression, so long as the bills upon Hamburgh should sell at a premium of 6 per cent. and the charge of remitting in specie did not exceed 3 per cent., the goldsmiths would be sufficiently emulous to offer bills to any amount, as the greater the sum, which they granted, the greater would be their profit; and the difficulty would not be to procure bills but to procure buyers.

The real cause of the unfavourable exchange in 1795 is fully apparent from the statement, which the (*a*) Bank

(*a*) See Report of the Secret Committee of the House of Lords, page 176.

presented to the Committee of the cotemporary amount of their paper. The following is an account of their out-standing notes on the 25th of February in the five years preceding 1798:

| | £. |
|---|---|
| 1793, - - | 11,451,180. |
| 1794, - - | 10,963,380. |
| 1795, - - | 13,539,160. |
| 1796, - - | 11,030,110. |
| 1797, - - | 8,640,250. |

As the amount of their paper, therefore, in 1795, from the inconsistent policy of Mr. Pitt, who was constantly urging a further publication at the time that the loan was in payment, exceeded by two millions the amount that was uttered in the two prior and two succeeding years, it clearly manifests that a partial excess of currency had caused the same sum to measure in this country a less value than it measured in others, and had consequently led to an unfavourable exchange to restore the correspondence. Had our currency during this year been reduced as much below its due proportion, as it was augmented above it, there is not the least doubt but that the bills against the continent would have sold at a discount, and the bills against this country at a premium, as in the preceding year of 1794, and subsequent years of 1797 and 1798, notwithstanding the loan to the court of Vienna.

In the summer of 1796, when the loan of £1,400,000. was remitted to the Emperor of Germany, the exchange again rose to 34, and as it continued to the close of the year from one to two per cent. only below par, it was

not at a sufficient depression to make the vehicle of money so favourable as the vehicle of bills. The timid and cautious secrecy, therefore, with which Mr. Pitt conducted the payment of the loan was wholly nugatory, as its remittance in specie would have occasioned a further loss instead of an advantage.

In 1797 and 1798 the exchange rose to 8, 10, and 12 per cent. in favour of this country; and though from the inadequate aid, which this country contributed, the court of Vienna were reduced, on the 17th of October 1799, to the necessity of signing the treaty of Campo Formio, and no further loans were in consequence remitted to Germany, yet the extended operations of the war, and the large sums that were raised during these two years, sufficiently shew, notwithstanding this deduction, that no material diminution occurred in the amount of our foreign expenditure. As the Bank of England particularly ascribed the unfavourable exchange of 1795, and the consequent drain upon their deposits, to that proportion of our foreign remittances which consisted of the Imperial loans, I have exclusively directed my observations to an exposition of the error of this opinion; but these remittances formed in fact a relatively inconsiderable part of our external payments. By an account which (*a*) Mr. Long presented to the Secret Committees, our foreign expenditure, exclusively of the loans to the court of Vienna, amounted in the four years preceding 1797, to the following sums:

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(*a*) See the account at the head of the chapter.

| | £. | s. | d. |
|---|---|---|---|
| 1793 - - - | 2,785,232 | 3 | 1 |
| 1794 - - - | 8,335,592 | 5 | 5 |
| 1795 - - - | 11,040,236 | 13 | 0 |
| 1796 - - - | 10,649,916 | 0 | 8½ |
| | 32,810,977 | 2 | 2½ |

Our average expenditure, therefore, for the foreign service of our navy and army was £8,000,000. a year; and as an opinion has been very generally entertained by our (*a*) ablest statesmen, that towards the close of the war it greatly exceeded this average, it is competent to conclude that in the years 1797 and 1798 it fully attained to this amount. But whatever might be its extent, it is evident that the bills, which were drawn for its payment, were current on the continent at a premium of 10 per cent.; and so far was their preponderance from being productive of depression, that the goldsmiths during the whole period were augmenting their number to take advantage of the premium, and remitting immense sums to this country to answer their payment.

It is, perhaps, unnecessary to add, that the real cause of the favourable exchange was the contraction of our paper, which originated in the run upon the country banks, and subsisted till the shock of the (*b*) 26th February was no longer felt, and the salutary fears of the

(*a*) See Lord Aukland's speech.

(*b*) The day when the Bank suspended its payment in specie.

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Directors had subsided in the profits of an over-charged circulation.

If, then, the preceding statement be correct, it is obvious that the opinion, with which Mr. Pitt and the Directors were impressed, that the departure of money was necessary for the discharge of a foreign expenditure, is wholly without foundation, as a due compression of our circulating system in 1794, 1797, and 1798, not only precluded the efflux of our specie, but conduced to the influx of foreign money at the very time that the expenditure was in payment.

Having thus shewn that the departure of money for the payment of a foreign expenditure at the time that a partial compression of our currency should cause the same sum to measure in this country a greater value than it measured in others, is inconsistent both with reason and with fact; and having proved by the minutes of the exchange, that in the five years preceding 1799 our money could only have been exported without loss at the close of the year 1795, it necessarily follows, that the bills, by which the payment of the expenditure was transacted, were invested in produce; and I shall endeavour to shew that this investment is the principal cause of the superiority of exports above imports in the public entries.

By those, who conceived that the theory of the balance of trade was self-evident, (*a*) no reference whatever was

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(*a*) Sir James Steuart, Lord Liverpool, &c.

made to the subject of a foreign expenditure, and the constant excess of exports was concluded to be decisive evidence of the influx and gradual amassment of money commensurate with its extent.

By those, who were more lax in their allegiance to this doctrine, and who rightly conceived that the quantity of our specie was wholly irreconcileable with the accumulative balances of the official returns, it was maintained, that though the excess of exports were decisive evidence of the influx of money commensurate with its extent, yet that our foreign expenditure occasioned, according to its amount, the constant (*a*) reflux of a greater or less proportion.

But the more (*b*) enlightened adherents of this system only contended, that the excess of exports would uniformly have led to the influx of money commensurate with its extent, had not our foreign expenditure anticipated the receipt, and caused a considerable proportion to be reserved in the debtor countries for its payment.

Each of these conclusions is, however, erroneous, as each implies, in a greater or less degree, an uniform current of bullion into this country without any reference to the relative amount of our circulation or the state of the exchange.

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(*a*) I was sorry to observe Mr. Leslie Forster, a member of this class.

(*b*) Our most eminent commercial characters have usually maintained this opinion.

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The first position I attempted to refute in the preceding chapter, by contending, that the influx of money could never exceed the sum, that was necessary to augment the currency of one country to the same proportion with the currency of another, and by proving, that our specie, notwithstanding the opinion, which the regular excess of our exports had encouraged the supporters of the theory to deduce, could not be computed at a greater sum than £5,000,000.

The futility of the first position, therefore, necessarily establishes the futility of the second, as it would be needless to treat upon the reflux of money, which had never been received; though this position, indeed be rendered nugatory by the foregoing argument of the present chapter, for if the conclusion be correct, that a partial compression of currency would conduce to the influx of money, at the time that a foreign expenditure was in payment, it follows as a necessary corollary, that the expenditure is incompetent to produce by its natural operation the departure of a greater sum than would otherwise have been remitted, as the same cause, which, notwithstanding its supposed counteraction, would occasion the influx of money when relatively deficient in quantity, till the just proportion were restored, would of course prevent the departure of money when relatively excessive, below that proportion. The uniform efflux, therefore, of £8,000,000. a year, or whatever may be the amount of our foreign expenditure, is wholly without foundation. If, then, neither the influx nor the efflux of money can take place beyond the sum, which is necessary to maintain

in all countries the same relative amount of currency, it is obvious, that the third conclusion, that money would invariably be received to the whole extent of the superiority of exports, unless anticipated by foreign expenditure, is equally irregular, as it implies the practicability of an idefinite accumulation of money in violation of the just proportion. The unform influx, therefore, of £14,800,000. a year, the computed balance of our trade, should our foreign expenditure cease, is not more consistent with reason than the uniform efflux of £8,000,000. a year during its continuance.

The ingress and egress of million upon million, so confidently asserted in conversation and debate, have no practical existence. If it were true that £8,000,000. of specie were exported for one purpose, and £6,000,000. for another, again to be received through the balance of trade, the nation would at one time be totally exhausted of its specie, and at another possess an inordinate superfluity; and at various intervals in the preceding century prices would have experienced an abrupt and irregular depression, and again have attained to as abrupt and irregular an elevation, to the total contravention of the action of money as an equable standard. But it will be hereafter proved, that throughout all ages the prices of this and every other country have maintained a gradual, uniform, and correspondent advancement, which conclusively attests that each country possessed in every period of history the same relative amount of circulation, without any tendency to the exhaustion or repletion, which the sudden departure and return of accumulative millions would have necessarily occasioned.

But this extravagant opinion of the ingress and egress of millions is the more inconsistent from the forbearance of all appeal to the position of the exchange, which is frequently adverse at the time that it is asserted that money is imported, and frequently favourable at the time that it is asserted that money is exported. After the preceding observations of this work it would be superfluous to explain that in the natural constitution of things, unless the exchange be favourable no money can be imported, and unless it be unfavourable no money can be exported, which necessarily renders the assertion in many instances the converse of the truth; and in those, where the exchange is not at variance with the assertion, the evidence of our goldsmiths, who exclusively conduct the transit of bullion, would sufficiently shew the comparative unimportance of the sums, that are remitted from one country to another to maintain the level, and fully illustrate the fallacy of the position, that a perennial current of bullion would have flowed into this country to the whole amount of the excess of our exports had no foreign expenditure intervened to obstruct it.

The conclusion, however, that our foreign expenditure conduced to the reservation of bullion, which would otherwise have been imported, was colourably justified by the occasional remittance of bills from this country for its disbursement, instead of by the draft of bills from abroad; for as it was conceived, that these bills could not have been granted without the pre-existence of a favourable balance at the place, upon which they were drawn, it was naturally conjectured, in conformity to the principles of the mercantile system, that money would have been re-

ceived for the payment of the balance had their purchase by government been forborne. It frequently happened, however, that the bills which were granted were drawn upon credit, and that produce was subsequently remitted for their liquidation; but in those instances, where they were drawn against exports antecedently effected, it would be wholly irregular to conclude, that a return would have been ordered in bullion, had no foreign expenditure subsisted, as it has already been shewn, that the occurrence of a foreign expenditure has no tendency to interrupt the influx of money, which would otherwise have been introduced.

I endeavoured in the third chapter to prove, that the exchange assumed a favourable or unfavourable posture for the express purpose of preventing the obstruction, that would otherwise ensue in the commercial intercourse of different countries, from the incidental variation in their circulating system. If by the partial compression of our currency, and consequent inferiority of our prices, the same sum were made to measure in this country a greater value than it measured in others, and the exchange were notwithstanding to continue at par, there would be no practicability of importing foreign produce, as no indemnification could be made for the inferiority of our prices; but if the exchange attained to a correspondent elevation, and a bill against the continent sold at a discount commensurate with the difference, the difficulty would be removed, as the importer would be enabled to purchase his investment at a proportionate advantage. If while the prices of London were five per cent. lower than the prices

of Hamburgh the exchange continued at par, it would be impracticable to import the produce of the continent, as a bill upon Hamburgh for £100. would sell in London for £100., and the importer would lose five per cent. by his investment; but if the exchange attained to a correspondent elevation, and a bill upon Hambuagh for £100. sold in London for £95., the importer would be indemnified by the purchase of his investment at the current discount of the exchange, and no obstruction to their intercourse would obtain. Unless, therefore, the inferiority of our prices below the prices of the continent were compensated, during the period of the disparity, by the interposition of a favourable exchange, it would be impracticable to support the import trade, and transact the mutual interchange of produce.

And if, when the partial excess of our currency and consequent superiority of our prices caused the same sum to measure in this country a less value than it measured in others, the exchange were to continue at par, there would be no capability of exporting our produce, as no capability would exist of indemnifying the foreign importer for the inferiority of foreign prices; but if the exchange were reduced to a correspondent depression, and a bill against this country sold at a discount commensurate with the difference, the foreign importer would receive indemnification by purchasing his investment at a proportionate advantage, and no impediment would intervene. If while the partial excess of our circulation caused the prices of London to be five per cent. higher than the prices of Hamburgh, the exchange between the

two places continued at par, it would be impracticable to export British produce to Hamburgh, as a bill upon London for £100. would sell in Hamburgh for £100., and the importer would lose five per cent. on his invoice; but if the exchange were reduced to a depression correspondent with the difference in their prices, and a bill upon London for £100. sold in Hamburgh for £95., the importer would be recompensed for the superiority of British prices, and no bar to their intercourse would subsist. The transitions, therefore, of the exchange effectually remove whatever impediment the temporary disparity of prices would otherwise occasion, and as they regularly reconcile the difference as it occurs, they invariably enable the same quantity of produce to be exported and imported as if the prices of all countries were uniformly correspondent, and the exchange were uniformly at par; and so fully is the principle, that the variation in the exchange between any two countries is the variation of their prices, admitted in practice by the commercial community, that they debit and credit each other for the imports and exports which they receive and remit, according to the value of their respective money by the criterion of the exchange, and only employ the intervention of a bill for the liquidation of a balance upon the final adjustment of their account. The favourable or unfavourable state of the exchange, therefore, is expressly established, that the correspondence of the merchant may experience no intermission from the same sum not being made to measure in all countries the same invariable value.

If, then, at the time that the partial compression of our

currency, and consequent inferiority of our prices, gave to the exchange a favourable position, it happened that four or five millions of exports were forwarded to the continent, it would be wholly illusive to conclude that our merchants would order their equivalent in bullion, because a profit on bullion was at that time attainable, as it would lead to a complete dereliction of their peculiar and distinct departments of commerce, and cause an abrupt cessation of the customary intercourse: they would merely employ the favourable exchange to procure foreign produce at the price, which the difference in the value of our money and the money of the continent made necessary, and would order precisely the same investment in return for their exports, as if prices had been equal and the exchange been at par, the import of bullion being exclusively left to the speculation of the goldsmith. If it were really true that at the period of a favourable exchange all exports were returned in bullion, and at the period of an unfavourable exchange all imports were returned in bullion, there would at one time have been no imports, and at another time no exports, to the total subversion of our commercial relations. The opinion, therefore, that the bills, which are granted for the payment of our foreign expenditure would be invested in bullion if government forbore to make their purchases, is wholly inconsistent with reason, even upon the event of a favourable exchange, and would be still more preposterous should the exchange be at par, or adverse, as no bullion could then be imported without loss.

But whatever plausibility the occasional remittance of

bills from this country might have given to the opinion, that our foreign expenditure conduced to the reservation of money, which would otherwise have been imported, it is evident, from the paper prepared by (*a*) Mr. Long, that our foreign expenditure during the late war was paid almost without exception by the draft of bills from the continent, instead of by the remittance of bills from home; and as these bills constituted a debt against us for the value received abroad, it could not be contended, that the discharge of our foreign expenditure by this channel had any tendency to anticipate the influx of bullion, and absorb that proportion, which would otherwise have been imported into this country, when no debt was due to us from foreign nations, and no bullion could be demanded; and when, on the contrary, we had a debt to pay to them instead of a debt to receive from them, and they could demand the bullion from us. In order to give to our foreign expenditure the means of anticipating the receipt of bullion, it is necessary, according to the tenets of the mercantile theory, that a commercial balance should previously subsist in our favour to authorise the requisition of the bullion; but if no such balance be contracted, it cannot be said that the draft of bills, which constitute a debt against us, can obstruct the import of bullion, as none would be claimed, if the debt were avoided. In the same manner, however, in which it was conceived, that the remittance of bills had a tendency to anticipate the influx of money, which would otherwise have been imported, it was concluded, that the draft of bills had a tendency to

(*a*) See the account at the head of the Chapter.

cause the efflux of money, which would otherwise have been retained. But as it has already been shewn, that our foreign expenditure has no operation to conduce to the export of a greater sum than would otherwise be remitted, this opinion is necessarily erroneous.

The conclusions, therefore, which the different advocates of the mercantile system have deduced,

That the excess of exports was decisive evidence of the influx and gradual amassment of money commensurate with its extent;

That it was decisive evidence of the influx of money commensurate with its extent, but that our foreign expenditure occasioned the reflux of the greater proportion;

And that it would have led to the influx of money commensurate with its extent, had not our foreign expenditure occasioned its reservation abroad, are alike aberrations from truth.

These conclusions form in succession the series of positions, by which the supporters of the theory endeavoured to resist the attack, that was made upon it. When the first position, that the influx and accumulation of money were correspondent with the superiority of exports, was found to be untenable from the inconsiderable amount of our specie, they retired to the second position, and contended, that the bullion was uniformly imported to the extent of the superiority, but that our foreign expenditure as regularly occasioned its reflux; and when the long continuance of an unfavourable exchange, which rendered the import of money impracticable, enforced the surrender of this position, they

took their station at the third, and contended, that the bullion would have been imported had not our foreign expenditure anticipated its receipt; but as the expenditure was paid by the draft of bills from abroad, which established a debt against us instead of a claim in our favour, this position was not more tenable than the preceding, and the whole of the theory, which was constructed on the fact of a favourable balance being due to the extent of the superiority of exports, was effectually subverted.

If, then, this argument be well founded, it is evident that the excess of exports, which was supposed to have arisen from the import of money for the payment of a favourable balance, is occasioned by the export of produce for the payment of an unfavourable balance. The bills, which are drawn for the discharge of our foreign expenditure are discounted in the place where they are given, and their value is received by this country, through its delegated agents abroad, in as full and ample a manner, as if the produce, which they purchased, were actually imported and entered in the custom-house books, and afterwards sent to the seat of war for consumption: but from the circumstance of its not being inserted in the custom-house entries as value received against the produce exported for its payment, the equivalent remitted is deemed to constitute a favourable balance, when it is in reality exported to liquidate a balance against us.

From this reasoning it is evident that the superiority of our exports above imports must nearly correspond with the amount of our foreign expenditure, as the influx and

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efflux of money for the maintenance of the common level are too inconsiderable to merit particular attention. The principle, however, upon which it has been usual to strike the difference between our exports and imports, and the partial statement which has been given of our foreign expenditure, make it impracticable to substantiate the preceding argument by a satisfactory exposition of facts.

The errors of the official balance arise both from an inaccurate estimate and an inaccurate classification of the public entries. The inaccuracy of the estimate is occasioned by the inferiority of the custom-house tariff, which was established in 1696, according to the current prices of that period, and is by (*a*) Sir George Shuckburgh's table 136 per cent. below the prices of the present times. Mr. Irving, however, added no more than 40 per cent.; and Mr. Rose has added no more than 70 per cent. to the official rate in the respective valuations, which they made of our exports and imports in 1796 and 1800; but I am inclined to give a decisive preference to the conclusions of Sir George Shuckburgh, whose researches were directed by higher talents, and prosecuted with severer industry. It is probable, however, that the tariff of 1696 was affixed at a higher standard than the average prices of the market authorised, to swell the public accounts, and inspire the country with an exalted sense of its prosperity. The difference, therefore, between the prices of the

(*a*) The value of money in 1700, according to the prices of the times, was 238: its value in 1800, according to the prices of the times, was 562; and the same proportion which 238 bears to 562, 100 bears to 236.

present times and the tariff may be much less than the difference between the prices of the present times and the real prices of 1796.

The inaccuracy in the classification of the entries arises from confounding the colonial with the foreign trade, and including the imports from our fisheries, and the East and West Indies, in the statement of our adverse balance. Mr. Irving very properly expunged this error in his estimate of 1796, and in striking the balance regarded only the exports and imports to and from foreign nations. In order to ascertain, according to the theory, which I have attempted to explode, what sum has been deposited by the balance of trade, or in order to ascertain, according to the system, which I have endeavoured to establish, the correspondence between the surplus of exports, and the amount of our foreign expenditure, this mode of computation is correct. Upon this principle, therefore, Mr. Irving estimated our annual average balance for the four years preceding 1796 at £6,500,000., including the 40 per cent. on the custom-house tariff.

The paper which Mr. Long prepared by the order of the Secret Committees of 1797, is the only statement which has been presented to the public of the amount of our foreign expenditure. According to this document, the expenditure for the three years, 1793, 1794, and 1795, was £22,161,061. 1*s*. 6*d*; if to this sum be added the Imperial loan of 1795, amounting to £4,600,000., the private expenditure of individuals, and the whole expenditure, public and private, of 1792, our aggregate

expenditure for the same four years, for which Mr. Irving struck our commercial balance, will considerably exceed £26,000,000., which was the extent of his computation.

Till, therefore, the superiority of our exports be estimated by a tariff more nearly commensurate with the prices of the times, and a fuller account be presented to the public of the amount of our foreign expenditure, it will be impossible to illustrate a due correspondence by the evidence of facts. But the preceding returns of Mr. Irving and Mr. Long declare a sufficient conformity to justify the inference of a nearer correspondence upon the adduction of more accurate details.

Though, therefore, it may be safely concluded, that the surplus of exports is in this country principally occasioned by the remittance of produce for the payment of a foreign expenditure, yet it cannot in all countries be contended, that the surplus is exclusively attributable to this cause, as in the same degree, in which some possessed an excess of exports, others should have an excess of imports. But as each has, more or less, laid claim to a preponderance of exports, it is necessary to refer to some other cause for a solution of the mystery.

As a nation was supposed to become rich by the augmentation of money, and as the surplus of exports was supposed to lead to the augmentation, every country has endeavoured by its legislative regulations to promote the export trade by bounties, that money might come in, and oppress the import trade with duties to prevent money from going

out. This policy has necessarily conduced to the fraudulent concealment of the imported produce subjected to the duty; and the public returns of the imports have been materially narrowed by the subterfuges, which are practised for its evasion; but the official statement is still further straitened by the general prevalence of the smuggling trade, which by the run of contraband goods considerably diminishes the entries of the custom-house.

But not only is the imported merchandize in all countries greatly under-rated in consequence of these subterfuges, but the exported merchandize is greatly over-rated. A disposition has very generally prevailed among merchants to make exaggerated entries in the custom-house books of the goods which they exported, for the purpose of augmenting their credit by the parade of extensive connections. So notorious was the practice in this country in the reign of Queen Anne, that (*a*) Mr. Lowndes proposed the enactment of a law to obstruct it; but as no essential injury resulted from it, and as government derived an indirect benefit by the imposing appearance of a large surplus of exports, his proposition was over-ruled. The late assessment, however, of a duty on exports has in a great degree counteracted this habit, and it is probable that less fraudulency is prastised in the entry of exported merchandize in this than in any other country in Europe.

From this statement it is reasonable to conclude that the universal policy of distressing the import trade, and

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(*a*) See the estimate of Mr. Chalmers, page 240.

the universal practice of exaggerating the export, materially conduce in almost every country to the superiority of its exports, though no doubt can be entertained but that in this country, from the magnitude of its external transactions, and the precautionary regulations of the custom-house, the superiority of exports is the immediate and necessary result of its foreign expenditure.

I have already remarked that Mr. Hume and Dr. Adam Smith had no means of accounting for the uniform return of an excess of exports, as the total failure of all documents on the amount of our foreign expenditure disqualified them from forming a just comparison; but Dr. Adam Smith was well aware of the impracticability of supporting the extended operations of war by the remittance of specie. Though he never attained to a correct perception of the theory of money, nor understood the real cause of its efflux and influx, which would have enabled him to elucidate the means of enforcing its import while a foreign expenditure was in payment, yet he fully exposed the error of the opinion, that the expenses of the seven-years war were discharged by its export. He says, (*a*) "The last French war cost Great Britain upwards of £90,000,000., including not only the £75,000,000 of new debt that was contracted, but the additional two shillings in the pound land tax, and what was borrowed from the sinking fund. More than two thirds of this expense were laid out in distant countries, in Germany, Portugal, America, in the ports of the Mediterranean, in

(*a*) See Wealth of Nations, Vol. II. page 159.

the East and West Indies. The kings of England had no accumulated treasure: we never heard of any extraordinary quantity of plate being melted down; the circulating gold and silver of the country had not been supposed to exceed £18,000,000.; since the late recoinage of the gold, however, it is believed to have been a good deal under-rated. Let us suppose, therefore, according to the most exaggerated computation, which I remember to have either seen or heard of, that gold and silver together it amounted to £30,000,000. Had the war been carried on by means of our money, the whole of it must, even according to this computation, have been sent out and returned again at least twice in a period of between six and seven years. Should this be supposed, it would afford the most decisive argument to demonstrate how unnecessary it is for government to watch over the preservation of money, since upon this supposition the whole money of the country must have gone from it and returned to it again two different times in so short a period without any body's knowing anything of the matter. The channel of circulation, however, never appeared more empty than usual during any part of this period."

He therefore concluded that the foreign charges of the war were chiefly defrayed by British produce, and imagined, that the finer and more improved manufactures were principally selected for the purpose, "as they contained a great value in a small bulk, and could therefore be exported to a great distance at little expense." But the foreign expenditure of every country is for the most part discharged by its staple produce; the foreign expen-

diture of this country is principally paid by its cottons, woollens, sugars, and hardware; the foreign expenditure of France by its wine, silk, and colonial produce; of Russia by its hemp, flax, and tallow; of Sweden by its iron, timber, and naval stores; of Prussia by its linen, grain, and spirits; of Ireland by its linen and salted provisions; and of every other country by the means, of which its surplus wealth is more particularly composed.

# CHAPTER IX.

## *On the Import of Corn.*



THE same illusion, which led to the supposition, that money was exported for the payment of our foreign expenditure during the prosecution of a war, equally led to the supposition, that money was exported for the purchase of grain during the pressure of a scarcity.

In the debate, which took place in the two houses of parliament on the renewal of the restrictions on the Bank of England after the peace of Amiens, it was contended, on the part of government, that though a favourable balance of trade were, in the natural constitution of things, a necessary result of the commercial relations of this country, yet as the ordinary course of commerce had received a temporary interruption from the war and the scarcity, not only had the influx of money been wholly obstructed, but the efflux of money had been occasioned to an unprecedented extent: but as no such interruption was likely to recur, the balance of trade would in a short time conduce to the import of many millions, which would enable the Bank to open its doors, and resume its cash payments with security.

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From what documents it was inferred, that the war and the scarcity had occasioned a temporary interruption to the customary course of commerce, I have not been able to learn; as not only had the surplus of exports, which had uniformly led, in the opinion of government, to the conclusion, that the course of trade was in our favour, greatly exceeded the amount of any prior period; but the total value of our exported merchandize had increased in the same unexampled ratio. No inference was therefore deducible from these returns to support the assumption of the slightest interruption; nor can I conceive that any grounds existed for the assertion.

The whole of the argument was, however, founded on erroneous principles; as the positions, that our foreign expenditure and the import of corn had conduced to the efflux or reservation of money abroad, were equally fallacious with the position, that the balance of trade would hereafter conduce to its influx.

If the doors of the Bank be to be closed till the customary course of commerce, in the natural constitution of things, should introduce ten or twelve millions of bullion into this country, they will be closed for ever. A partial compression of currency is the only policy, by which the influx of money can be enforced, and unless the remedial measures, that must hereafter be adopted, be grounded on this principle, they will fail of success.

The sum remitted for the purchase of corn was com-

puted in this discussion at (*a*) £23,000,000.: the sum remitted for the payment of our foreign expenditure was by some computed at £50,000,000, by some at £30,000,000., but by none at a lower sum than £25,000,000. Estimating it, therefore, at this sum, the collective amount exported for these purposes will be £48,000,000.

Now though it be competent to conclude, that in 1793, antecedently to the utterance of small notes, our specie bore a nearer approximation to our paper than has since subsisted, yet there can be no doubt but that the sum exported was considerably less than the amount of the notes, by which it was displaced. These notes may be estimated at between six and seven millions. If, therefore, at the commencement of the late war in 1793, our national stock of coin be computed at double the present amount, and it be said, that we then possessed from ten to twelve millions of specie instead of five; yet as it is impossible to pay £48,000,000. out of twelve, and leave five, there can be no foundation for the conclusion that such a sum was ever remitted.

Our two unfavourable seasons occurred in 1795 and 1799; the severity of the pressure was consequently in 1796 and 1800; yet so early as in May 1795, when no scarcity was even in prospective, and before a single grain of corn was imported to obviate the calamity (*b*) the

(*a*) It has since been ascertained that the quantity of corn imported has amounted to £30,000,000., and it is accordingly contended that £30,000,000. of specie has been exported for its payment.

(*b*) See the extract from Lord King's Tables, page 196.

exchange was on the decline, which clearly shews that its original depression did not result from this cause; and that the scarcity had no effect to maintain it in a state of depression, when the diminution of our paper conduced to its elevation, is attested by its recovery to par in April (*a*) 1796, at the precise period, when the dearth was at the greatest height, and when our debt upon the continent for the supplies, that we had imported, was at its greatest extent. Though, therefore, from the 20th of June 1795 to the 11th of February 1796, as shewn in the preceding chapter, a run upon the Bank was effected, yet no argument can be adduced to shew, that the drain was attributable to the scarcity, as the exchange had already declined before any indication of a scarcity had been given, and was restored to par, at the very time, that the pressure was felt with most severity.

The same observations will nearly apply to the scarcity of 1799; for though the exchange were not reduced to an unfavourable state till the month of September, yet its depression had began in May; and that its fall would have been precipitated, notwithstanding the occurrence even of a most propitious season, is fully demonstrated by its continuance, not only in an adverse but deteriorated condition, during the three years of 1801, 1802, and 1803, though the produce of these years, and particularly of the two last, were remarkable for its abundance.

Had the unfavourable exchange of 1795 and 1799

(*a*) See the extract from Lord King's Tables, page 196.

resulted from the respective scarcity of these years, not only is it impossible that it should have risen to par in 1796, when the dearth was greatest; but it is impossible that it should not have risen to par in 1802 and 1803, when no vestige of the calamity remained. It is therefore evident, that its adverse position in 1795 was attributable, as I have previously explained, to the undue publication of the paper of the Bank, in compliance with the solicitations of Mr. Pitt; and its adverse position in 1799 to the premium, which the restriction held out to an excessive utterance. The gradual increase of their paper from 1797 to 1804 will sufficiently illustrate this observation.

| | £. |
|---|---|
| 1797, February, | 11,103,880. |
| 1798, February, | 13,043,480. |
| 1799, May (*a*) | 13,920,260 |
| 1800, May | 15,213,520. |
| 1801, February, | 16,365,206. |
| 1802, November, | 16,747,300. |
| 1803, July, | 17,254,100. |

Since, then, the origin, the continuance, and eventual rectification of the unfavourble exchange had no relation to the scarcity, it is obvious, that whatever sum might have been remitted during its depression, would have been equally remitted, had no scarcity occurred. But it is certainly possible, that the bills, which were purchased by the goldsmiths abroad for investment in British specie, were

(*a*) When the exchange began to decline.

in some instances drawn against an invoice of corn, as well as an invoice of flax, hemp, linen, or any other produce. The only point, which it is necessary to ascertain is, whether the unfavourable exchange resulted from the scarcity; and as its recovery to par in 1796, and its continuance in a state of depression in 1802 and 1803, clearly shew, that its adverse or favourable position is not in all instances correspondent with an adverse or favourable season, it is wholly immaterial, whether the bills, that were purchased by the goldsmiths, were drawn against corn or against any other produce, as other bills would have been bought for the same purpose had none been extant in the market for corn.

The extent of the sum remitted it is impossible to ascertain with any precision; but as it must have been within the amount of the small notes, by whose over-issue it was in reality detruded, it cannot be computed at more than six or seven millions, and was most probably much less, as my estimate of the coin antecedently to the war appears to me to be considerably above what a fair deduction of reasoning would allow.

Not only, however, is it contended, that the import of corn has conduced to the efflux, but it is also contended that it has prevented the influx of money. When the position, that £23,000,000. of our specie had been remitted to the continent for the purchase of grain, was controverted by Mr. Fox in the debate on the Bank restriction bill in 1803, Lord Hawkesbury said, that it was the same thing, whether it were contended, that the purchase of corn had

occasioned the efflux, or whether it were only contended that it had prevented the influx of specie, as in each case the country was deprived of so much money: but if the import of corn prevented only the introduction of so much money, it in no shape accounted for the loss of what we before possessed: whatever sum had pre-existed would by this reasoning have existed still, and the £23,000,000. assumed to have been exported, would have still formed a part of our circulating system. The argument, therefore, was by no means the same, as applied to the subject matter of debate, since it did not go to prove that the prior stock was diminished, which it was the object of government to shew, but only that it was not increased.

But the conclusion of Lord Hawkesbury, that the purchase of so much corn prevented the influx of so much money, was equally erroneous with the conclusion that the purchase of so much corn conduced to the efflux of so much money, notwithstanding the previous sanction, which it had received from the authority of Lord Liverpool in the Report of the Secret Committee of 1797. In this Report, after having stated, that the surplus of exports amounted to £6,500,000. a year, (*a*) Lord Liverpool says, "great, however, as this balance of commerce may appear, it would have been still greater, in a very considerable degree, but from the unusual scarcity of grain, which made it necessary both for government and indi-

(*a*) See the Report of the Secret Committee of the House of Lords, page 255.

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viduals to import large quantities of grain for the relief of the inhabitants of this kingdom. In an account delivered by Mr. Claude Scott, an eminent corn factor, it appears, that for the three years preceding 1797, there were paid to foreign countries for grain imported into this kingdom the following sums, viz.

| | £. |
|---|---|
| In 1794, - - - - | 1,983,856 |
| 1795, - - - - | 1,535,672 |
| 1796, - - - - | 3,926,484 |
| | 7,446,012 |
| Add, imported in 1793, as estimated by Mr. Scott in his evidence before the Committee, - - - - | 1,500,000 |
| Total, | 8,946,012 |

This balance of commerce was also rendered less favourable by the great sums paid for naval stores during the war beyond what are usually paid in time of peace. It appears by an account presented by the Commissioners of his Majesty's Navy, that the value of naval stores imported on account of his majesty's navy in the four years previous to 1797, amounted to - - - £7,825,876

And in the four years preceding 1793, amounted only to - - - - - - - - - - - - 2,500,139

Excess 5,325,737

And it appears by an account presented of the amount of bills drawn on the Commissioners for Victualling, from foreign

| | | |
|---|---|---|
| parts, in the four years ending the 5th of January 1797, that they amounted to - - - - - - | £1,368,921 | |
| And in the four years ending 5th of January 1793, to - - | 134,629 | |
| | | 1234,292 |
| Total excess - - - - | | 6,560,029 |

Though it cannot be doubted that the balance of our trade, even with these deductions, must have brought great wealth in various articles of commerce into this kingdom, and that unusual quantities of foreign (*a*) merchandize must in consequence thereof have been deposited in it; yet it may be doubted whether it brought so great a quantity of the precious metals to be converted into coin, as in former periods."

By this argument Lord Liverpool concludes, that if the £8,946,012. worth of corn, and the £6,560,029. worth of naval stores had not been imported, our surplus of exports for the four years preceding 1797 would have been (*b*)

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(*a*) This remark is singularly unhappy. It is impossible to say, that the balance of trade can lead to the import of an unusual quantity of merchandize, as, according to Lord Liverpool, the definition of the balance of trade is "when the whole of the merchandize exported exceeds the whole of the merchandize imported, the difference is paid in money;" but if merchandize be imported, instead of money, no difference can subsist.

(*b*) £8,946,012
6,560,029

15,506,041

£15,506,041. more, and have led to the receipt of this sum in foreign money. But this conclusion is wholly inconsistent with the equability of our commercial system.

The principles of commerce will be fully detailed in the second volume of this Inquiry ; but it is necessary in the mean time to remark, that all commerce with independent states consists in the equal interchange of produce for produce. It is impossible that a nation could fulfil the relations of commerce, and drive an export trade to the amount of many millions, without importing to a similar extent. The power of buying depends upon the power of selling ; and unless the countries, to whom the produce was exported, were capable of vending an equivalent in return, they would be deficient in means to maintain the intercourse. The equal interchange, therefore, of produce for produce, is a necessary result of the commercial relations of independent states, and forms the leading principles, by which their intercourse should be regulated.

It may be said, indeed, that according to this principle the exports and imports should have a reciprocal action on each other, and that the extent of the one should be implicitly governed by the extent of the other; nor can there be any doubt but that a perfect (*a*)

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(*a*) I do not mean to assert, upon the principle on which our balance is now constructed, that if the export trade were debited with the amount of our foreign expenditure, a perfect correspondence would subsist between our exports and imports, as our colonial imports from the East and West Indies are clashed with the imports from foreign independent states, but I have no doubt but that it would be fully authenticated were the balance

correspondence would be fully established, did not the payment of a foreign expenditure intervene to obstruct it. But though the interposition of a foreign expenditure, by causing an excess of exports commensurate with its amount, prevent the correspondence, that would otherwise subsist, yet it cannot be said to break in upon the principle, that all commerce with independent nations consists in the equal interchange of produce for produce, as the excess exclusively results from the return of an equivalent for the foreign produce already consumed by the public and private expenditure of British subjects abroad. Instead, therefore, of invalidating the position, it constitutes immediate evidence to confirm it.

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exclusively constructed with independent nations, according to the plan adopted by the late Mr. Irving. By the present construction of the balance, if the export trade were debited with the amount of our foreign expenditure, there should be a surplus of imports above exports to the extent of the surplus of imports above exports from the East and West Indies, and in time of peace, when our foreign expenditure is comparatively of little moment, this excess has sometimes occurred.* The colonial trade is, for the most part, a trade of remittance instead of exchange. It is a trade of exchange so far as produce is exported from this country to purchase an equivalent; but it is a trade of remittance in the same proportion in which the imports exceed the exports, as the surplus of imports from the East Indies is purchased by the territorial revenue of the company, and the surplus of imports from the West Indies constitutes the returns above proceeds of the West-India planters, and forms the substance of their income. This trade should therefore be subjected to a separate balance, and the gain to the mother country would precisely be as the imports exceeded the exports. The trade with Ireland should likewise be subjected to a separate balance.

* See Report of the Secret Committee of the House of Commons, p. 241.

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If, then, it be correct in theory, that the exports and imports to and from independent states have a reciprocal action on each other, and that the extent of the one is necessarily limited by the extent of the other, it is obvious, that if no demand had subsisted in this country from 1793 to 1797 for corn and naval stores, the countries that furnished the supply would have possessed so much less means of expending our exports, as an inability to sell would of course have created an equal inability to buy. It is totally irregular, therefore, to infer, that our exports would have amounted to the same sum, had the import of the corn and naval stores been withheld, as those who provided the supply would have been utterly incapable of purchasing them.

Lord Liverpool's position, therefore, that the balance of our trade would have been much more considerable had the scarcity and the war created no demand for corn and naval stores, is inconsistent with the first principles of commerce, as it rests upon the opinion, that our exports would have attained to the same extent though our imports had been materially curtailed. By Lord Liverpool, and all the partisans of the theory of a balance, the extent of the import trade is regarded as a serious calamity, that impoverishes the country by causing the efflux or preventing the influx of money. Had it happened by any singular combination of circumstances, that he had been minister of this country, at the time, that Mr. Necker was minister of France, and that each could have carried into effect the system, which he deemed most conducive to the interests of his country; the one would have prohibited

all imports from France, and the other have prohibited all imports from England, to the effectual exclusion of all commerce between the two states; and had they pushed their means of augmenting the wealth of a nation to the extreme, to which their principles would have led them, they would have persisted in the total prohibition of imports from all other countries, with the fallacious hope of effecting in their own an indefinite accumulation of money; till they had found, by fatal experience, that they had subverted all commerce, where they intended to promote it, and caused nothing but ruin, where they meant to produce the utmost prosperity.

The sentiments, therefore, with which Lord Liverpool and Lord Hawkesbury were impressed, that the import of so much corn prevented the influx of so much money, had no foundation in reason, as the additional supply of corn, imported in a year of scarcity, instead of obstructing the influx of money, is paid for by the increase of our export trade commensurate with the increase of supply.

# CHAPTER X.

*On Lord King's Hypothesis, that the Surplus of Exports is occasioned by the Remittance of Silver to India.*

CHAPTER X.

SOON after the publication of my Remarks on Currency and Commerce, in which I attempted to refute the theory of the balance of trade, by contending, that the surplus of exports resulted from the payment of our foreign expenditure, instead of resulting from the influx of money, Lord King presented an hypothesis to the public, in which he contended, that it resulted from the remittance of silver to India.

He was convinced, that the doctrine of the indefinite accumulation of money by the perpetual recurrence of a favourable balance of trade was erroneous, and he admitted, that the theory of a balance, as applied to commerce in general, had been successfully refuted by the arguments of the new school; but he thought, that the balance of trade and the excess of exports were convertible terms, that because there was an excess of exports there must necessarily be an influx of money commensurate with its extent. He therefore concluded that, in conformity to the principle of the nullity of a balance, a perfect correspondence should subsist between our exports and imports, not observing, that by deducting

from the surplus of exports the amount of our foreign expenditure, the correspondence would be virtually established, though an excess would remain in the books of the Inspector General. He imagined, indeed, from a disregard or misconception of the argument, that the doctrine of the new school went to a rejection of the excess, instead of to a different interpretation of it; and he therefore paid no further attention to the reasoning, which had been adduced, than as it refuted the principle, upon which the theory was founded, that wealth exclusively consisted in money.

Finding, therefore, that a surplus of exports existed, and thinking its existence incompatible with the nullity of a general balance, he conceived that it originated in a partial statement of our commerce, which returned the whole of our exports, and only a part of our imports; and he imagined, that he discovered in the exclusion of the imports from India an omission of sufficient magnitude to account for the disparity. He perceived, that, in the annual statement of our commerce, submitted to Parliament by the Inspector General, the imports from India were uniformly excluded; and as he was aware that a certain proportion of Spanish dollars was annually remitted to India for the purchase of home investments, he concluded that the superiority of exports was occasioned by the influx of money into this country from a partial balance of trade with the continent of Europe to supply the East Indies with silver, and conjectured that if the imports from India were added to the imports from Europe in the Inspector's return, a perfect correspondence would be fully established between the export and import trade, and no surplus be apparent. In his own words,

(*a*) "When the subject is considered in this point of view, it will appear that in one quarter of the globe our exports must always exceed our imports, and that in another our imports must exceed our exports; but that in the aggregate amount of the commerce of this country with the whole of the world the balance will be reduced on an average to the most perfect equality."

But much as I may admire the ingenuity, and respect the character of the author, it is impossible for me to accede to the truth of this hypothesis.

From what argument in the modern doctrine of the economists Lord King collected that (*b*) "the possibility of any permanent and uniform excess of the exports above the imports was utterly denied," I am at a loss to conjecture. The theory of the balance of trade was derived from the opinion, universally maintained, that the surplus of exports was decisive evidence of the influx of money commensurate with its extent; but in controverting the truth of this theory, no attempt was made to impeach the fact of a surplus, but the inference, which was deduced from it, that it necessarily led to the return of its equivalent in money. The only difference between the old and new school on this point was, that the one contended, that the surplus was occasioned by the influx of money, and the other, that it was occasioned by foreign expenditure, the surplus itself remaining wholly undisputed. So far, indeed, was the surplus from being rejected, that it was expressly contended, that the official statement of the

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(*a*) See Lord King, page 58. (*b*) Ibid, page 52.

Inspector General was within the real amount, and inadequate to cover the expenditure, which produced it. But as Lord King conceived, that the fact of a surplus was controverted, (*a*) he said, "that the supporters of the old system have successfully appealed from theory to facts, and have established by the most satisfactory evidence, that a superiority of exports has uniformly subsisted."

Having thus established what was never rejected, he immediately deduced from the fact of an excess the same inference, which the partizans of a balance had done, concluding, that because he had proved a surplus of exports, he had necessarily proved the influx of money; and he therefore (*b*) asserted, "that it was impossible to deny the reality of a constant influx of the precious metals into this country from the continent of Europe."

But if it be impossible to deny the reality of a constant influx of the precious metals into this country from the continent of Europe, I know not by what means the specie has disappeared, which we recently possessed; for Lord King does not contend, that more has been exported to India than was imported by the surplus of exports, nor is he so inconsistent as to argue, that the efflux and influx of money to and from the same nations of Europe are capable of being effected at the same time.

In corroboration, however, of his inference, that money was returned for the surplus of exports, he adduced the general condition of the exchange; (*c*) the favourable state

(*a*) See Lord King, page 53. (*b*) Ibid, page 53. (*c*) Ibid, page 54.

of which, he says, " may be considered as a certain and indeed decisive criterion of a favourable balance of trade;" and in order, that the public might be enabled to judge how far the criterion of a favourable exchange would confirm his hypothesis of a favourable balance with Europe, he subjoined in the appendix to his work a statement of the exchange with Hamburgh from 1789 to 1803. By this document it appears, that in seven years out of the fourteen, that in 1792, 1795, 1799, 1800, 1801, 1802, and 1803, the exchange was unfavourable to this country, and consequently led to the efflux instead of the influx of money. Yet during the whole of this period, an excess of exports was invariably returned by the Inspector General to a greater extent than at any prior period of our history. If, therefore, it be contended that an uniform surplus of exports is decisive evidence of the uniform influx of money commensurate with its extent, it is necessary, that the exchange should have been uniformly favourable to have supported the influx. Its adverse position, therefore, during the half of the period of Lord King's statement, is in direct opposition to his hypothesis, as I well know that he has too much talent to contend, that five or six millions of money, the amount of the surplus of exports, could have been annually imported into this country during the continuance of its depression.

Confiding, however, in the correctness of the conclusion, that the excess of exports was returned in money in consequence of a partial balance with Europe, it was necessary, according to the conviction, which he professed of the nullity of a general balance, that the money should be subsequently remitted to some other quarter of the

globe for the purchase of its equivalent in produce to bring the export and import trade to a perfect correspondence; and he therefore concluded that it went out in silver to India.

I have already explained that the only period, in which the surplus of exports to the continent of Europe above the imports from it, was estimated with any approximation to accuracy, was in the four years of 1792, 1793, 1794, and 1795, by the late Mr. Irving. Its amount during this series of years was computed by that intelligent officer at £26,000,000., or at £6,500,000. a year. According, therefore, to Lord King's hypothesis, the silver that was annually exported to India during the same interval should have precisely amounted to the same sum; but according to the returns of the (*a*) bullion office of the India House, the Spanish dollars exported to India during these years were, in

| | £. | s. | d. |
|---|---|---|---|
| 1792, - - | 666,954 | 14 | 10 |
| 1793, - - | 83,668 | 11 | 8 |
| 1794, - - | 56,696 | 12 | 6 |
| 1795, - - | 52,560 | 9 | 3 |
| | 859,880 | 8 | 3 |

or only £214,970. 2*s*. a year, leaving a surplus of exports to the extent of £6,286,029. 18*s*. to be accounted for by some other cause. In bringing, therefore, Lord King's hypothesis to the proof of facts, it appears that the only evidence to support his position, that the surplus of exports

(*a*) See Report of the Secret Committee of the House of Lords, pages 235 and 237.

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to the extent of £6,500,000. a year resulted from the remittance of silver to India was the annual export of £200,000. of Spanish dollars.

As he was, however, persuaded in his own mind of the accuracy of his system, he thought that nothing was wanting to raise the imports to a level with the exports, but that the imports from India should be added to the imports from Europe. But the amount of the produce returned from India will no more contribute to the verification of his reasoning than the amount of the silver exported. In the statement, which is annually submitted to parliament of the exports and imports, it is impossible for the Inspector General to include the imports from India, as from the imposition of an ad valorem duty on the sale of various articles of our Indian trade, no accurate return can be made till six months after the arrival of the last ship, which is usually towards the close of the year; but in every instance where a regular series of our balances is exhibited, the imports from India are invariably inserted, and the surplus of exports, which had been previously returned to parliament for the current year, is diminished in proportion to their amount. Yet notwithstanding this diminution, a vast excess of exports has uniformly remained, except in the years of peace, to which I antecedently alluded. So far, therefore, are the imports from India, which are purchased by the remittance of silver when added to the imports from Europe from establishing a correspondence between our exports and imports, that even when the imports which are purchased by the territorial revenue of the Company, by the private fortunes of individuals, and by the export of British

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# An ACCOUNT of the Total Value of the IMPORTS into and EXPORTS from Great Britain, in the last Twenty Years, distinguishing each Year, and distinguishing the BRITISH from the FOREIGN MERCHANDIZE Exported.

| Value of Imports, exclusive of E. Indies and China | Value of Importations from E. Indies and China. | TOTAL Value imported. | Years. | Value of British Manufactures Exported. | Value of Foreign Merchandize Exported. | TOTAL Value of Exports. | Surplus of Imports. | Surplus of Exports. |
|---|---|---|---|---|---|---|---|---|
| £. s. d. | £. s. d. | £. s. d. | | £. s. d. | £. s. d. | £. s. d. | £. s. d. | £. s. d. |
| 10,809,612 12 11 | 1,834,221 14 9 | 12,643,834 7 8 | 1777 | 9,300,266 10 4 | 4,190,763 9 6 | 13,491,029 19 10 | | 847,195 12 2 |
| 9,449,402 10 5 | 1,526,130 10 7 | 10,975,533 1 — | 1778 | 8,207,503 8 10 | 4,046,392 4 1 | 12,253,895 12 11 | | 1,278,362 11 11 |
| 10,718,940 3 7 | 716,323 9 10 | 11,435,263 13 5 | 1779 | 7,648,286 — 10 | 5,890,289 3 7 | 13,538,575 4 5 | | 2,103,311 11 — |
| 9,841,513 18 2 | 970,726 9 7 | 10,812,240 7 9 | 1780 | 8,813,690 12 5 | 3,834,925 8 9 | 12,648,616 1 2 | | 1,836,375 13 5 |
| 10,197,274 13 11 | 2,526,339 2 2 | 12,723,613 16 1 | 1781 | 7,633,332 12 5 | 3,708,963 16 3 | 11,342,296 8 8 | 1,381,316 7 5 | |
| 9,715,509 6 11 | 626,319 8 5 | 10,341,828 15 4 | 1782 | 9,109,561 1 1 | 3,907,829 12 6 | 13,017,390 13 7 | | 2,675,561 18 3 |
| 11,820,739 14 3 | 1,301,495 13 3 | 13,122,235 7 6 | 1783 | 10,409,713 3 5 | 5,058,574 11 6 | 15,468,287 14 11 | | 2,346,052 7 5 |
| 12,276,224 18 — | 2,996,652 2 11 | 15,272,877 — 11 | 1784 | 11,887,628 7 8 | 3,846,434 8 1 | 15,734,062 15 9 | | 461,185 14 10 |
| 13,575,458 7 5 | 2,703,940 14 1 | 16,279,399 1 6 | 1785 | 10,974,814 12 5 | 5,142,834 19 7 | 16,117,649 12 — | 161,759 9 6 | |
| 12,629,385 6 10 | 3,156,687 — 7 | 15,786,072 7 5 | 1786 | 11,830,194 19 8 | 4,470,535 12 9 | 16,300,730 12 5 | | 514,658 5 — |
| 14,373,156 15 7 | 3,430,868 — 6 | 17,804,024 16 1 | 1787 | 12,054,224 3 2 | 4,815,890 2 5 | 16,870,114 5 7 | 933,900 10 6 | |
| 14,573,290 17 9 | 3,453,897 3 5 | 18,027,188 1 2 | 1788 | 12,724,612 7 1 | 4,747,796 — 6 | 17,472,408 7 7 | 554,779 13 7 | |
| 14,461,954 9 2 | 3,359,148 1 5 | 17,821,102 10 7 | 1789 | 13,779,506 2 6 | 5,561,042 14 5 | 19,340,548 16 11 | | 1,519,446 6 4 |
| 18,298,116 11 11 | 832,069 13 4 | 19,130,886 5 3 | 1790 | 14,921,084 9 7 | 5,199,037 7 11 | 20,120,121 17 6 | | 989,235 12 3 |
| 15,971,069 — 7 | 3,698,713 13 — | 19,669,782 13 7 | 1791 | 16,810,018 16 4 | 5,921,976 10 11 | 22,731,995 7 3 | | 3,062,212 13 8 |
| 16,957,810 17 3 | 2,701,547 9 4 | 19,659,358 6 7 | 1792 | 18,336,851 6 11 | 6,568,348 16 6 | 24,905,200 3 5 | | 5,245,841 16 10 |
| 15,757,693 16 10 | 3,499,023 12 10 | 19,256,717 9 8 | 1793 | 13,892,268 17 7 | 6,497,911 9 3 | 20,390,180 6 10 | | 1,133,462 7 2 |
| 17,830,418 19 — | 4,458,475 1 5 | 22,288,894 — 5 | 1794 | 16,725,402 16 2 | 10,023,564 19 3 | 26,748,967 15 5 | | 4,460,073 15 — |
| 16,976,179 1 8 | 5,760,710 8 3 | 22,736,889 9 11 | 1795 | 16,527,213 2 2 | 10,785,125 15 2 | 27,312,338 17 4 | | 4,575,449 7 5 |
| 19,800,957 — 5 | | | 1796 | 19,106,444 17 5 | 11,317,740 — 8 | 30,424,184 18 1 | | |

Inspector General's Office,
Custom House, London,
March 27th 1797.

*Thomas Irving*,
Inspector General of the Imports and Exports of
Great Britain and the British Colonies.

*N. B.*—From the manner in which the East India Importations are entered at the Custom House, no account can be given of the value of the Imports from India and China sooner than five or six months after the termination of the year; but in order to preserve the comparative view, the Inspector General has distinguished the amount of the Imports of the East India Company in all the years preceding 1796, from the Importations from all other parts.

produce from this country, are superadded to them, a large superiority of exports is still apparent. The annexed account of our exports and imports from 1777 to 1796, including the imports from India, as delivered by Mr. Irving to the Secret Committee of 1797, will fully confirm this reasoning.

Whatever hope, therefore, whatever encouragement the omission of the imports from India in the current returns of the year might have held out for the possible accuracy of Lord King's hypothesis, yet it is wholly inexplicable, when the requisite evidence to confirm or invalidate it was so immediately on the surface, that a common regard for the truth of his observations should not have prompted an examination. Had the surplus resulted from so simple a cause as the omission of the imports from India, deluded indeed must the nation have been to have constructed its commercial regulations for a century on a fact, which merely arose from the incompetency of its custom-house officers to balance their accounts! It is scarcely credible, that a statesman of Lord King's talent could have imagined that a fact, which no inspector could have so winked as not to have seen, should so long have escaped observation.

No ground, therefore, exists for supposing that our surplus of exports is occasioned by the remittance of silver to India instead of being the result of our foreign expenditure.

# CHAPTER XI.

*On the Causes of the Depreciation of Money.*

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If the general reasoning contained in the preceding part of this inquiry be founded in truth, it is evident that at one and the same period the same sum has been uniformly made to measure the same value, exclusively of the charge of transit, in every part of the world; but as various impediments have operated to disqualify the same sum from measuring the same value at different periods, I shall endeavour to state the causes and effects of this disparity, and point out the reform, which it is requisite to make in the circulating system of Europe for its future prevention. In this investigation, however, it is only necessary to illustrate the alteration, which has ensued from the progressive reduction in the value of money, as no instance has occurred of any alteration from a progressive advancement.

In every period of history, from the conquest to the present times, the value of money has sustained a gradual depreciation: but as the depreciation has resulted from distinct causes in distinct ages of our history, I shall divide the whole epoch into three periods; from William the First to Elizabeth, from Elizabeth to the Revolution, and from the Revolution to the present times.

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A Table exhibiting the Prices of various Necessaries of Life, together with that of Day Labour, in sterling Money, and also in Decimals, at different Periods, from the Conquest to the present Time, derived from respectable Authorities; with the Depreciation of the Value of Money inferred therefrom. To which is added, the Mean Appreciation of Money, according to a Series of Intervals of 50 Years, for the first 600 Years; and, during the present Century, at shorter Periods, deduced by Interpolation.

| Year of our Lord | THE PRICES OF VARIOUS ARTICLES AT DIFFERENT TIMES. | | | | | | | | | | | | | | | | | | | | | Mean Appreciation by Interpolation. | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Miscellaneous Articles. | | | | | | | | | | | | | | | Depreciation of Money, according to the Price of | | | | | | |
| | | Cattle in Husbandry. | | | | | Poultry. | | | | | | | Mean Depreciation from these 12 Articles. | Beef and Mutton, per lb. | Labour in Husbandry, per Day. | | | | | | |
| | Wheat, per Bushel. | Horse. | Ox. | Cow. | Sheep. | Hog. | Goose. | Hen. | Cock. | Butter, per lb. | Cheese, per lb. | Ale, per Gallon. | Small Beer, per Gallon. | | | | Wheat. | 12 miscellaneous Articles. | Meat. | Day Labour. | Mean of all. | A. D. | |
| | s. d. | £. s. d. | £. s. d. | £. s. d. | £. s. d. | £. s. d. | s. d. | s. d. | s. d. | d. | d. | s. d. | d. | | d. qr. | s. d. | | | | | | | |
| 1050 | 0 2¼ | 1 17 6 *89 | 0 7 6 20 | 0 6 0 37 | 0 1 3 29 | 0 2 0 36 | | | | | | | | 42 | | | 10 | 42 | | | 26 | 1050 | 26 |
| 1100 | | | | | | | | | | | | | | | | | | | | | | 1100 | 34 |
| 1150 | 0 4½ | 0 12 5 | 0 4 8¼ | | 0 1 8 | 0 3 0 | | 0 3 | | | | | | | | 0 2 | | | | | | 1150 | 43 |
| 1200 | | | | | | | | | | | | | | | | | | | | | | 1200 | 51 |
| 1250 | 1 7¾ | 1 11 0 | 1 0 7 | 0 17 0 | 0 1 7 | | 1 0 | 0 3 | 0 4½ | | | | | | | | | | | | | 1250 | 60 |
| 1300 | | | | | | | | | | | | | | | | | | | | | | 1300 | 68 |
| 1350 | 1 10½ | 0 18 4 43 | 1 4 6 66 | 0 17 2 106 | 0 2 7 61 | 0 2 6 45 | 0 9 75 | 0 2 24 | 0 3¾ 31 | | | | | 56 | | 0 3 | 100 | 56 | | 75 | 77 | 1350 | 77 |
| 1400 | | | | | | | | | | | | | | | | | | | | | | 1400 | 83 |
| 1450 | 1 5 | | 1 15 8 | 0 15 6 | 0 4 11½ | 0 5 1 | 0 6¼ | | | | | | | | | 0 3¾ | | | | | | 1450 | 88 |
| 1500 | | | | | | | | | | | | | | | | | | | | | | 1500 | 94 |
| 1550 | 1 10½ | 2 2 0 100 | 1 16 7 100 | 0 16 0 100 | 0 4 3¾ 100 | 0 5 6 100 | 1 0 100 | 0 8¼ 100 | 1 0 100 | 5 100 | 2 100 | 0 1½ 100 | 1 100 | 100 | 1 0½ | 0 4 | 100 | 100 | 100 | 100 | 100 | 1550 | 100 |
| 1600 | 4 0½ | | | | | | | | | | | 0 4 | 2 | | 1 2 | 0 6 | | | | | | 1600 | 144 |
| 1625 | 4 11 | | | | | | 2 0 | | 1 6 | | | | | | | 0 6½ | | | | | | 1650 | 188 |
| 1650 | 5 6 | | | | | | | | | | | 0 4 | 2 | | | | | | | | | 1675 | 210 |
| 1675 | 4 6 | 5 10 0 250 | 3 6 0 184 | 2 17 0 345 | 0 11 0 256 | 0 14 0 254 | 3 0 300 | 1 3 182 | 1 3 125 | 4½ 90 | 2 100 | 0 8 530 | 2½ 250 | 239 | 1 3½ | 0 7½ | 246 | 239 | 166 | 188 | 210 | 1700 | 238 |
| 1700 | 4 9½ | | | | | | | | | | | 0 10 | 3 | | | | | | | | | 1720 | 257 |
| 1720 | 4 4½ | | | | | | | | | | | 1 0 | 3 | | 2 2 | 0 8 | | | | | | 1740 | 287 |
| 1740 | 3 8 | 10 0 0 476 | 8 0 0 437 | 7 7 0 884 | 1 6 0 602 | 1 15 0 634 | 3 6 350 | 1 6 218 | 1 6 150 | 9 180 | 3½ 175 | 1 0 800 | 3 300 | 434 | 3 0 | 0 10 | 197 | 434 | 266 | 250 | 287 | 1750 | 314 |
| 1760 | 3 9¾ | 14 0 0 667 | 8 10 0 465 | 7 0 0 874 | 1 7 0 626 | 1 15 0 634 | 5 0 500 | 1 10 266 | 1 10 183 | 10 200 | 5½ 262 | 1 2 930 | 3 300 | 492 | 4 2 | 0 11 | 203 | 492 | 400 | 275 | 342 | 1760 | 342 |
| 1770 | | | | | | | | | | | | | | | | | | | | | | 1770 | 384 |
| 1780 | 4 5½ | | | | | | | | | | | | | | | 1 2 | | | | | | 1780 | 427 |
| 1790 | | | | | | | | | | | | | | | | | | | | | | 1790 | 496 |
| 1795 | 7 10 | 19 0 0 904 | 16 8 0 890 | 16 8 0 2000 | 1 18 0 882 | 5 8 0 1960 | 3 0 300 | 1 6 218 | 1 6 150 | 11½ 230 | 5 250 | 1 0½ 969 | 2¾ 275 | 752 | 5 3 | 1 5¼ | 426 | 752 | 511 | 436 | 531 | 1795 | 531 |
| | | | | | | | | | | | | | | | | | | | | | | 1800 nearly | 562 |

* The small figures denote the price in decimals, whereof those for the year 1550 may be taken for the integer, *viz.* 100.

Besides most of the old chronicles and historians, the following books were consulted, in constructing the above table; *viz.* Bishop Fleetwood's *Chronicon Preciosum*, 1st and 2d edit. *Liber Garderobæ*, in 1299. The Sketch of the Establishments of this Kingdom, *temp.* Ed. III. *et seqq.* by J. Bree, 1791. Collection of Ordinances and Regulations of the Royal Household, in divers Reigns, from Edward III. to King William and Queen Mary, Lond. 1790, 4to. The 11th volume of the *Archæologia*. An Enquiry into the Prices of Wheat and other Provisions in England, from the Year 1000 to 1765, by Mr. Combrune, fol. Lond. by T. Longman, 1768. Dr. Smith's Wealth of Nations. Sir James Steuart's Political Œconomy; and Dr. Henry's History.

The depreciation of money from William the First to Elizabeth was occasioned in part by the debasement of the coin, and in part by the gradual increase of gold and silver from the coexistent mines of Europe; from Elizabeth to William the Third it attained additional rapidity by the influx of gold and silver from the mines of America; and from William the Third to the present times it has been still further accelerated by the general publication of paper.

From William the First to Elizabeth our coins were debased by successive innovations to nearly one-third of their primitive weight, as a Tower pound of silver was coined at the time of the Conquest into 20*s*. and in the reign of Elizabeth into 58*s*. 1½*d*. But as the mode and progressive augmentation of the debasement are detailed with peculiar perspicuity by (*a*) Lord Liverpool, I shall give the narrative in his own words, that I may not derogate from its merit by abridgement.

(*b*) "The pound weight which, was made use of in the mints of this realm till the 8th Henry the Eighth for weighing gold and silver was the Tower pound, or what is called the moneyer's pound; it was lighter than the pound troy by three quarters of an ounce troy. It is certain that this Tower pound is the same, that had been used by our Saxon ancestors in weighing the precious

(*a*) Where a statement of facts is required, it is impossible to follow a better guide than Lord Liverpool. Where theory is requisite, I am sorry to add, it is impossible to follow a worse.

(*b*) See Lord Liverpool's Letter to the King, page 28.

metals, and nearly the same, that was made use of for the same purpose in the principal cities of Germany: this pound was called by French writers the Rochelle pound. Henry the Eighth, in the 18th year of his reign, forbade the use of the Tower pound in his mint, and introduced the troy pound in its stead, which has continued to be used there ever since.

" At the accession of William the First to the throne of England, the pound in tale of the silver coins current in this kingdom was equal to the pound weight of standard silver, that is, the Tower pound before mentioned. The pound in tale was divided into 20*s*. and each shilling into twelve-pence, or sterlings. The pound weight was divided into 12 ounces, and each ounce into 20 dwt., so that each penny or sterling weighed one pennyweight, or 24 grains. The only coins made in this early period were pennies or sterlings. This simple system of coinage, by which the pound in tale was made equal to the pound in weight, and was divided in the manner before mentioned, is supposed to have been first introduced by Charlemagne into France and his other extensive dominions, towards the end of the eighth century. It might have been introduced from thence into this island in the time of our Saxon ancestors by the influence of the Norman princes, who had a considerable connection with this kingdom, before William Duke of Normandy took possession of the throne. The system of coinage thus described continued without any alteration in the weight of our silver monies till the 28th of Edward the First. It is true that halfpennies, then frequently called mailles,

as well as farthings, were introduced by Henry the First. Pennies, however, were still during the whole of this period the highest denomination of our silver coins.

" Edward the First, in his 28th year, first debased our silver coins.

" Before I proceed to give an account of the successive debasements made in our coins, it is proper to observe, that coins may be debased in three different ways;

" First, by diminishing the quantity or the weight of the metal of a certain standard of which any coin of a given denomination is made;

" Secondly, by raising the nominal value of coins of a given weight, and made of a metal of a certain standard; that is, by making them current or legal tender at a higher rate than that at which they passed before;

" Thirdly, by lowering the standard or fineness of the metal of which coins of a given weight and denomination are made; that is, by diminishing the quantity of pure metal, and proportionally increasing the quantity of alloy.

" I shall be enabled to state in a clearer light the successive debasements made in the coins of this realm, if I arrange them in conformity to the different manners of debasing coins, before stated under the following heads:

" First, the alterations and debasements made in the silver coins of this realm by diminishing the quantity or weight of standard silver put into them. The silver coins have always been debased in this manner, except in the

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short period of nine years, from the 34th Henry VIII. to the 6th Edward VI.

"Secondly, the alterations and debasements made in the gold coins of this realm, either by diminishing the quantity or weight of the gold put into them, or by raising the nominal value of the existing coins, in order to preserve the relative proportion or value of the gold coins with that of the silver coins current at successive periods. The gold coins of the realm have been debased in both these manners, but more frequently in the latter.

"Thirdly, I shall reserve for a distinct head an account of the extraordinary and violent alterations and debasements that were made in the coins of this realm, particularly by lowering the standard of the metal put into the silver coins during the short period before mentioned. At the end of that period a reformation of the coins of the realm from the late unexampled debasements commenced, though it was not completed, and though the old standard of our silver put into our coins was not perfectly restored till the 2d of Elizabeth. The various and violent proceedings which took place from the 34th Henry VIII. to the 6th Edward VI., may be considered as a sort of convulsion in the monetary system, and proper, therefore, for a separate head.

"It is necessary in calculating these debasements to adhere to one and the same weight, and as the Tower pound was the longest in use, I shall make my calculations according to the Tower pound.

" It has already been stated that Edward the First, in the 28th year of his reign, first debased the silver coins of this realm.

" In this year he diminished the quantity or weight of sterling silver in the silver coins of the several denominations made at his mint. He coined the pound weight of sterling silver into 20 shillings and 3*d.* in tale, so that the pound sterling in tale was thereby debased 1 $\frac{19}{81}$ per cent.

" This king first coined silver groats of the value of four pennies, which took the name of groats from their being larger coins than any that had yet been made. The groats coined by this prince were but few ; and this denomination of money did not become generally current till the reign of Edward the Third.

" The second debasement of our silver coins was in the 18th of Edward the Third, who then coined the Tower pound of sterling silver into 22*s.* 2*d.* in tale ; and the pound sterling in tale was thereby further debased 8 $\frac{5816}{10773}$ per cent.

" The third debasement of our silver coins was in the 20th year of the same king, who then coined the Tower pound of sterling silver into 22*s.* 6*d.* in tale ; and the pound sterling in tale was thereby further debased 1 $\frac{463}{1197}$ per cent.

" The fourth debasement of our silver coins was in the

27th year of this king, who then coined the Tower pound of sterling silver into 25*s.* in tale; and the pound sterling in tale was thereby further debased 13 $\frac{1}{3}$ per cent.

"The fifth debasement of our silver coins was in the 13th of Henry the Fourth, who then coined the Tower pound of sterling silver into 30*s.* in tale; and the pound sterling in tale was thereby further debased 13 $\frac{1}{3}$ per cent.

"The sixth debasement of our silver coins was in the 4th of Edward the Fourth, who then coined the Tower pound of sterling of sterling silver into 37*s.* 6*d.* in tale; and the pound sterling in tale was thereby further debased 13 $\frac{1}{3}$ per cent.

"Henry the Seventh, who made no change in the weight of his silver coins, first coined shillings, which had before been only a money of account. Shillings, however, did not become generally current till the reign of his successor, Henry the Eighth, and they were then commonly called testons.

"The seventh debasement of our silver coins was in the 18th of Henry the Eighth, who then coined the pound troy of sterling silver into 45*s.*, or according to the Tower pound, into 42*s.* 2$\frac{1}{4}$*d.*; and the pound sterling in tale was thereby further debased 5 $\frac{3}{17}$ per cent.

"This king first coined crown pieces of silver of the nominal value of 5*s.*; but it is supposed that he made but

few of them, and that they did not become generally current till the reign of Queen Mary.

" In the reign of Queen Mary silver half crowns were first coined, and silver crowns became generally current.

" The eighth debasement, of which I shall take notice under this head, was in the 2d year of Queen Elizabeth; of the great and extraordinary debasements in the standard of the metal of which our coins were made between 18th Henry the Eighth and the 6th Edward the Sixth, as well as of the proceedings for the reformation of the coin in the last year of the reign of Edward the Sixth, and also during the whole of the reign of Queen Mary to the 2d of Elizabeth, I shall give a separate account hereafter.

" Queen Elizabeth, in the 2d year of her reign, restored the silver coins of her realm to the standard of old sterling, and she coined the pound troy of sterling silver into 60*s.* in tale, or, according to the Tower pound, into 56*s.* 3*d.*; and the pound sterling in tale, compared with what it had been in the 18th Henry the Eighth, was thereby further debased 11 $\frac{23}{29}$ per cent.

" The ninth and last debasement of our silver coins was in the 43d Elizabeth, who then coined the pound troy of sterling silver into 62*s.*, or, according to the Tower pound, into 58*s.* 1$\frac{1}{2}$*d.*; and the pound sterling in tale was thereby debased 1 $\frac{41}{279}$ per cent."

According, therefore, to Lord Liverpool's statement the Tower pound of silver was coined in

| A. D. | | s. | d. | | | s. | d. |
|---|---|---|---|---|---|---|---|
| 1066 | into | 20 | 0 | | | | |
| 1300 | - - | 20 | 3 | | | | |
| 1344 | - - | 22 | 2 | | | | |
| 1346 | - - | 22 | 6 | | | | |
| 1353 | - - | 25 | 0 | | | | |
| 1412 | - - | 30 | 0 | | | | |
| 1464 | - - | 37 | 6 | | | | |
| 1527 | - - | 42 | $2\frac{1}{4}$ | Pound Troy | | 45 | 0 |
| 1560 | - - | 56 | 3 | - | - | 60 | 0 |
| 1601 | - - | 58 | $1\frac{1}{2}$ | - | - | 62 | 0 |

By these successive debasements, therefore, the pound in tale, or 20*s*., was nearly reduced, from William the First to Elizabeth, to one third of its primitive weight.

The debasements, which were made in the coin during this period, were partly effected for the purpose of augmenting the revenue by the seignorage which was extracted from the coin on its refabrication, and partly with the view of relieving the crown from its exigencies, by enabling it to liquidate its debts with a smaller sum of money.

According to Lord Liverpool, the silver subtracted on re-coinage or the dues of seignorage, sometimes amounted to a considerable sum, as the frauds which were practised, in the remedy of the coin and the admixture of alloy materially contributed to its augmentation.

The king was enabled to liquidate his debts in consequence of these debasements with a smaller sum of money, as he was authorized by his prerogative to publish the new coin at the same value, at which the old coin was previously published, and was therefore empowered to make the same quantity of silver discharge a larger proportion of debt, than it could have done antecedently to the alteration. But whatever temporary relief these innovations might have given to the exigencies of the crown, no expedient could have beem more impolitic, as the revenue was permanently diminished in the same ratio, in which the coin was deteriorated. This result was sufficiently experienced, though no efficient measures were taken to elucidate or remove the cause.

The familiar habit of circulating money by tale, instead of by weight, had given rise to an opinion that government was enabled to affix on the coin an arbitrary value, and that it was only necessary to declare, that such a piece of money should be a legal tender for such a sum in order to make it permanently pass for so much value. But though, in the common intercourse of society, any given coin, impressed with a particular stamp, and designated by a particular term, pass current by tale from a confidence in the government, which publishes it, without any consideration of its weight; yet when, from an alteration in the standard, it no longer indicates the same quantity of metal, which it antecedently expressed, it is immediately decried, and circulated at the value which it actually contains. For as all prices are regulated by the relative proportion which produce and money bear to each

other; and as no subdivision of the coin can have the least operation to alter the gross amount of gold and silver, all produce will exchange for the same quantity as before the debasement; and as this quantity will consist of a greater number of pieces, prices will be raised in proportion as the coin is subdivided, and money will be reduced in value according as it is reduced in weight. If, therefore, the constituted authority of the state should ordain, that a sixpence should effect the payment of a shilling, the price of produce would be instantly doubled in nominal value, and government would lose half its revenue. Exclusive, therefore, of the injustice of the alteration, which would defraud the public creditors of one half of their equitable claims, the crown would be eventually involved in greater difficulties from the same nominal revenue being possessed of no more, than half the power, of which it was possessed before.

The diminution, however, of the public revenue, and the injustice to the public creditors, constituted but a small part of the evil, which resulted from these debasements: the mischief extended through all the gradations of society, and in every relation of private life, maintained by the payment of a fixed income, an injury was sustained commensurate with the extent of the innovation. (*a*) Dr. Henry in his history of Britain has ably illustrated the effects which they produced.

"Though our kings and great barons," he says,

(*a*) See Dr. Henry's History of Britain, 8vo. edit. Vol X. page 266.

" were the chief promoters of the diminution of the weight and value of the coin, they were by far the greatest sufferers by that imprudent measure; for by that means all the fixed annual payments that, were due to them from their subjects and vassals, were much diminished in their real value, though they continued the same in name; they received the same number of pounds, which had been originally stipulated, but these pounds did not contain the same quantity of silver, and would not purchase the same quantity of goods with those in the original stipulation. The king and the nobility discovered the error they had made and the loss they had sustained, and endeavoured to apply a remedy, but it was not the natural and only effectual one of restoring the coin to its original weight and purity. An act of parliament was made in 1467 to the following purpose: 'that all debts should be paid in the same substance or quantity of silver as at the time of making the contracts.' This law was certainly very equitable, but it is obvious the execution of it would be attended with many difficulties, and productive of many disputes, and that it would be no easy matter to persuade vassals, tenants, and debtors of all kinds, to pay a greater number of pounds, shillings, and pence, than they were bound to pay by their original obligations. There is sufficient evidence still remaining, that though several laws were made of the same tenor with that above, none of them could be executed, and that the several feudal payments due by the vassals of the king and barons, by the successive changes of the coin and of the value of money dwindled down to less than the hundredth part of what was originally intended, and in many cases to a mere trifle."

Even, therefore, had the value of gold and silver in the age between William the First and Elizabeth continued the same; had the same specific gravity been at all times exchangeable for the same quantity of produce, yet as money is exclusively estimated according to its weight, the pound in tale, or 20*s*., would have purchased in the reign of Elizabeth no more. than one third of the produce, which it purchased in the reign of William the First, and would consequently have retained no more than one third of its original value.

Not only, however, was our money during this period reduced in value in proportion as it was reduced in weight, but it was still further depreciated by the gradual augmentation of its quantity from the co-existent mines of Europe. The table, which Sir George Shuckburgh has published of the depreciation of money, from the conquest to the present time, very properly relates only to money of the same standard, and therefore contains the gradual declination in the value of the same specific gravity of silver, without including the distinct depression of the coin from the debasements, which were effected in the age between William the First and Elizabeth. Unless the learned author, in his general estimate of the relative value of money, had proceeded upon the principle of reducing the coins of the different reigns in the ruder period of our history to a common standard, it is impossible that he could have attained to a correct conclusion. Had he found that 20*s*. in the reign of William the First purchased so much more produce than 20 now purchase, and without adverting to the disparity in the weight of the 20*s*. or 240*d*. of those days, and the 20*s*. of these, had

formed the deduction of the difference in the value of money from the difference, which he observed in the nominal prices of the two periods, his inference would have been irregular, as 20*s*. then contained nearly three times the weight of silver, which they contain in the present age. He therefore converted the money of the different reigns that preceded Elizabeth into the money of her reign, or what is the same thing, into the money of the present times, as our coin has undergone no alteration since the debasement, which she made in 1601. All the prices, therefore, which are recorded in the table, are given in the money of the present times, instead of in the money of the age, to which they refer; and the depreciation, which is deduced is the depression of money of the same standard, of the pound in weight, and not of the pound in tale.

In estimating, therefore, the value of money in the age between William the First and Elizabeth with the value of money in the present times, it is necessary to convert the money of the particular reign into the money of the present times, for the purpose of reducing them to a common standard, and preparing them for appreciation by Sir George Shuckburgh's proportions. This reduction may be effected by the following table of the specific gravity of our coin from William the First to Elizabeth, (*a*) constructed in the able and elaborate treatise of Mr. Folkes.

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(*a*) See Treatise of Mr. Folkes in the Society of Antiquarian Coins, coins, page 142.

| Year of the King's Reign, and A. D. | Standard of the Silver. | Weight of 20 Shillings in tale. | (a) Value of the same in present Money. | Proportion. |
|---|---|---|---|---|
| | | *oz. dwt. gr.* | £. *s. d.* | |
| Conquest, 1066 | old ster. | 11 05 00 | 2 18 01 2*q.* | 2.906 |
| 28 Ed. I. 1300 | — | 11 02 05 | 2 17 05 | 2.871 |
| 18 Ed. III. 1344 | — | 10 03 00 | 2 12 05 1*q.* | 2.622 |
| 20 same 1346 | — | 10 00 00 | 2 11 08 | 2.583 |
| 27 same 1353 | — | 9 00 00 | 2 06 06 | 2.325 |
| 13 Hen. IV. 1412 | — | 7 10 00 | 1 18 09 | 1.937 |
| 4 Ed. IV. 1464 | — | 6 00 00 | 1 11 00 | 1.55 |
| 18 H. VIII. 1527 | — | 5 06 16 | 1 07 06 3*q.* | 1.378 |
| | *oz. dwt.* | | | |
| 34 same 1543 | w 1 2 | 5 00 00 | 1 03 03 1*q.* | 1.163 |
| 36 same 1535 | w 5 2 | — — — | 0 13 11 2*q.* | 0.698 |
| 37 same 1546 | w 7 2 | — — — | 0 09 03 3*q.* | 0.466 |
| 3 Ed. VI. 1549 | w 5 2 | 3 06 16 | | — |
| 5 same 1551 | w 8 2 | — — — | 0 04 07 3*q.* | 0.232 |
| 6 same 1552 | w 0 1 | 4 00 00 | 1 00 06 3*q.* | 1.028 |
| 1 Mary 1553 | w 0 2 | — — — | 1 00 05 3*q.* | 1.024 |
| 2 Eliz. 1560 | old ster. | — — — | 1 00 08 | 1.030 |
| 43 same 1601 | — | 3 17 10 | 1 00 00 | 1.000 |

This table is as requisite to give the relative weight of our money, as the table of Sir George Shuckburgh is to give its relative value.

According to this explanation, if the value of money

(a) The word value ought to have been weight; value is a relative term depending on quantity as well as weight; and though the weight of 20*s.* in tale in the reign of William the First was no more than £2. 18*s.* 1½*d.* of our present money, yet their value was twenty times this sum. This mistake was frequently made by our old writers. Lord Liverpool has also committed this error. See Lord Liverpool's Letter to the King, page 39, &c.

in the age of William the First be estimated with the value of money in the present age, and 20*s*. of his reign be compared to 20*s*. of this, the money of William must be first converted into the money of the present time, by the proportions of the table of Mr. Folkes, to reduce them to a common standard. These proportions give to 20*s*. of his reign the same weight of silver which £2. 18*s*. 1½*d*. now contain. In applying, therefore, the proportions of Sir George Shuckburgh's table to find their relative value, it is necessary to appreciate £2. 18*s*. 1½*d*. for the 20*s*. of the reign of William, which make the pound in tale of his reign equal to £62. 16*s*. 4½. of the present times. But if the disparity in the specific gravity of the money of the respective periods were overlooked, it might be conceived that the pound in tale of William the First was worth no more than £21. 18*s*. 3½*d*. of the money of the present reign, and like the pound in weight, was depreciated only 20 instead of 60 times its own value.

Since, then, the table of Sir George Shuckburgh exclusively relates to the depreciation of money of the same standard, it is obvious, according to the proportions which he formed, that the pound in weight was depreciated, from William the First to Elizabeth, from 1050 to 1600, somewhat more than five times its primitive value.

This depreciation could only have resulted from an augmentation in the quantity of gold and silver, through the fertility of the co-existent mines of Europe, since it would be utterly inconsistent with reason to infer that it originated in the relative diminution of produce, as the

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historians of the times sufficiently manifest that the country improved in opulence and civilization during the whole period.

Dr. Adam Smith has, however, concluded, in the digression, which he made concerning the variations in the value of silver, that from the reign of Edward the Third to Elizabeth, from 1350 to 1570, money was on the advance instead of the decline, though Sir George Shuckburgh's table, during the same period, affirm a depreciation of one third, or above 30 per cent. Dr. Adam Smith was led to form this conclusion from the reduction, which he observed in the price of corn; and as he was of opinion, that corn was a more accurate criterion of the value of money "than any other commodity or set of commodities," he naturally inferred, that money had risen in the same proportion, in which corn had fallen. But this opinion appears to me to have been formed on insufficient grounds.

Corn can be no further regarded as a criterion of the value of money, than as the income of each individual is expended in its purchase. If at the time, that a reduction was effected in the price of corn, every other commodity were advanced, not only would it be erroneous to infer, that money had risen in value, but it would be erroneous not to infer that it had fallen; as in every department of expenditure, except corn, the same sum would be incompetent to purchase the same quantity of produce, and £500. a year, or any given income, be inadequate to maintain the proprietor in the same position in society, in which

£400., or whatever might be the depreciation, antecedently maintained him.



Of the earnings of the poorer classes of the community, as much the greater proportion is undoubtedly expended in corn, or in the necessaries of life composed of corn, corn may be said to them to form a better criterion of the value of money, than any other commodity; but in the middle and higher ranks of society a less and a less proportion of income is occupied in corn, and it is possible, that its price may materially decline, while the comforts, the elegancies, and luxuries of life, proportionally advance, and reduce a fixed income many degrees below its original value.

If, then, at any given period corn should increase in a much greater ratio than currency, and all other produce in a much less, it is obvious, that corn would decline in price, and all other produce advance; and that money would sustain a general depreciation, notwithstanding the diminution in the price of corn. From 1350 to 1570, by an improved or extended cultivation, corn augmented in a much greater proportion than money, and as it experienced a correspondent reduction in price, money undoubtedly rose in value with reference to it; but as the advanced price of the miscellaneous articles in Sir George Shuckburgh's table during this interval sufficiently attest that money augmented in a greater ratio, than every other produce, it is evident, that it suffered a depression in general value, notwithstanding the partial rise in its appreciation with relation to corn, and fell in the 220 years from 77 to 116, or above 30 per cent.

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The inference, therefore, which Dr. Adam Smith deduced from the low price of corn, that money was on the advance instead of the decline during this period, was drawn from insufficient premises.

In taking, therefore, a collective view of the depreciation of money between William the First and Elizabeth, from the concurrent causes of an increase in the quantity of gold and silver by the fertility of the co-existent mines of Europe, and a debasement of the coin by the authority of the crown, it is manifest, that the pound in tale at the close of the reign of Elizabeth was reduced to about one sixteenth of the value, which it had possessed at the time of the Conquest; for though had the coin continued of the same standard, 20*s*. of the reign of William the First would, by the proportions of Sir George Shuckburgh's table, have been equal to no more than £5. 10*s*. 9*d*. of the reign of Elizabeth, yet as 20*s*. of his reign contained the same quantity of silver as £2. 18*s*. 1½*d*. of her reign, they were in reality equal to £16. 1*s*. 8½*d*. of the money of 1600, instead of £5. 10*s*. 9*d*. The consideration, however, of the depression of money from 1550 to 1600 should in strictness of reasoning have been deferred to the second period of this investigation, as it was almost wholly occasioned by the influx of bullion from the mines of America instead of from the mines of Europe; but as the last debasement of our coin was effected in 1601, I thought it more conducive to the simplification of my subject to close the first head of my inquiry in that year, than at 1550.

In investigating the depreciation of money in the second

period, from Elizabeth to William the Third, the subject assumes a less complex form, as no controversy has ever arisen, either on the fact of the depression, or on the cause that led to it, the influx of money from America.

America was discovered in 1491, and the mines of Potosi in 1527; but by Sir George Shuckburgh's table no sensible excess occurred in the depreciation of the money of Europe till 1550. From 1550 to 1600 its value fell from 100 to 144, or 44 per cent. This remarkable depression did not, as already noticed, escape the observation of the able statesmen who at that time conducted the councils of this country. In the words of Sir William Blackstone, (*a*) "they directed, in 1570, by S. 18 Eli. c. 6. that in college-leases one third of the old rent then paid should for the future be reserved in wheat or malt, reserving a quarter of wheat for each 6*s*. 8*d*., or a quarter of malt for every 5*s*.; or that the lessees should pay for the same according to the price, that wheat and malt should be sold for in the market next adjoining to the respective colleges on the market day before the rent becomes due. This is said to have been an invention of Lord Treasurer Burleigh, and Sir Thomas Smith then principal Secretary of State, who observing how greatly the value of money had sunk, and the price of all provisions risen, by the quantity of bullion imported from the new-found Indies, which effects were likely to increase to a greater degree, devised this method for upholding the revenues of colleges. Their foresight and penetration have in this

(*a*) See Blackstone's Com. Vol. II. page 322.

respect been very apparent, for though the rent, so reserved in corn was at first but one third of the old rent, or half of what was still reserved in money, yet now the proportion is nearly inverted, and the money arising from (*a*) corn rents is, *communibus annis*, almost double to the rents reserved in money."

In the second fifty years after the time that the American returns assumed a certain degree of regularity, the depreciation of money proceeded with less rapidity, and from 1600 to 1650 extended no further than from 144 to 188, or 30 per cent. This diminution in the ratio of depreciation did not result from any decrease in the fertility of the American mines, but from the same quantity of bullion being no longer possessed of the same power. During the earlier period of the influx the sums imported necessarily produced a more powerful effect, as they bore a nearer proportion to the pre-existing stock of specie in circulation; but in the same degree, in which this stock accumulated by the regular remittances, the supplies received became of less value, and every successive year caused a less depression than the year preceding, from bearing a less proportion to the aggregate amount.

In the third fifty years the depreciation was still less, and from 1650 to 1700 the value of money only fell from 188 to 238, or 26 per cent.; nor would the depression

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(*a*) The price of wheat being now 80*s*. the quarter, the corn rent is six times the value of the money rent.

have proceeded so far, had not the banking system, which began at this period to be generally established in Europe, promoted its extent. It is evident, therefore, that towards the close of the reign of William the Third, the proceeds of the American mines were gradually losing more and more of their influence to lower the value of money, when a new system prevailed in Europe, that gave to the depreciation a new impetus.

The accelerated depression produced by this system will form the subject matter of the third part of this Inquiry, in the period that elapsed from 1700 to 1800, from the close of the reign of William the Third to the present times. It was remarked in the preceding period, that the value of money fell from the year 1550 to 1600 44 per cent., from the year 1600 to 1650 30 per cent., and from the year 1650 to 1700 26 per cent., notwithstanding that the annual returns from America experienced during this interval no diminution; but from the year 1700 to 1750 the value of money fell from 238 to 314, or 32 per cent., and from the year 1750 to 1800 from 314 to 562, or 79 per cent., notwithstanding that the American returns experienced no increase. It is impossible, therefore, to attribute this acceleration in the ratio of depreciation exclusively to the influx of money from America, not only because the annual supply prior to 1700 was regularly producing a less instead of a greater depression, but because the extent of the depreciation from 1750 to 1800 considerably even exceeded the depreciation, that was effected from 1550 to 1600 upon the first eruption of the American mines, when the annual remittances

were acting with undiminished power on a relatively small amount of circulating specie. Had no depreciation resulted from 1700 to 1800 beyond that, which the import of bullion from America could have produced, the depression of the first 50 years, according to the preceding ratio, would have been no more than 22 per cent. instead of 32, and the depression of the second fifty, 18 per cent. instead of 79. The ten per cent additional depreciation, therefore, in the first fifty years of the 18th century, and the 61 per cent. additional depreciation in the second, must necessarily be ascribed to some other cause.

Some authors have, however, doubted the fact of the depreciation during the 18th century, and Dr. Adam Smith has even gone the length of contending, that from 1700 the value of money has rather risen than fallen. (*a*) He was of opinion, that between 1630 and 1640, or about 1636, the effect of the discovery of the mines of America in reducing the value of money was completed; from that period to 1700 he conceived that it was nearly stationary, and from 1700 to 1764 that it was somewhat advanced. He formed this conclusion from a supposition that the markets of Europe, America, and Asia had not only absorbed the annual supply from the American mines, but by raising a demand above the supply, had gradually conduced to an elevation of its value. In his own words, (*b*) "the whole annual consumption of gold and silver in all the different countries of the world, where those metals are used, may perhaps be nearly equal to the whole

(*a*) See Wealth of Nations, Vol. I. page 301. (*b*) Ibid, Vol. I. page 328.

annual produce, the remainder may be no more than sufficient to supply the increasing demand of all thriving countries. It may even have fallen so far short of this demand as somewhat to raise the price of those metals in the European market." He endeavoured to support this inference in the same manner as in his prior argument on the value of money, from 1340 to 1570, by a reference to the price of corn. He admitted, however, from 1636 to 1700, during the last 64 years of the 17th century, that the price of corn was on the advance, but as he attributed this advance to the civil war, to the bounty on corn in 1688, and to the clipped money of the reign of William the Third, which raised the nominal above the real price of produce, he did not regard it as any evidence of a degradation in the value of money; and he therefore concluded, that during these 64 years it was nearly stationary. From 1700 to 1764 the price of corn was on the decline, and from this declension he instantly drew the inference, that the value of money had risen.

In the commencement of his argument on the variations in the value of silver, he says, (*a*) "labour, it must always be remembered, and not any particular commodity or set of commodities, is the real measure of the value both of silver and of all other commodities," and he selected corn as a criterion of the value of money, only because he conceived, that equal quantities of corn more nearly represented equal quantities of labour, or what is the same thing, the price of equal quantities, than any other part of the rude produce of the land. But notwith-

(*a*) See Wealth of Nations, Vol. I. page 291.

standing that this distinction was always to be remembered, it appears to have been only written to be forgotten; for he admits, that from 1636 to 1764 the price of labour was considerably advanced, and as the same quantity of corn would not, therefore, in 1764 command the same quantity of labour as in 1636, he should, upon his own principles, have admitted, that the value of money during this period had been proportionally depressed.(*a*) "But the rise in the price of labour," he says, "seems to be the effect, not so much of any diminution in the value of silver in the European market, as of an increase in the demand for labour in Great Britain, arising from the great and almost universal prosperity of the country;" and he endeavours to confirm this opinion by contending, that the same quantity of labour would command a greater quantity of the necessaries and conveniences of life than in the preceding century. But this was certainly inconsistent with fact. The same quantity of labour would undoubtedly command a greater quantity of the necessaries of life, but a much smaller quantity of the conveniencies; and as he afterwards himself affirms, that the conveniencies of life would command a greater quantity of labour than in the foregoing century, it necessarily follows, that the same quantity of labour would command a smaller quantity of them. The rise in the price (*b*) of labour, indeed, exclusively resulted from this advance in the price of the comforts of life.

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(*a*) See Wealth of Nations, Vol. I. page 313.

(*b*) Though the wages of labour be regulated by the price of corn more than by the price of any other commodity, yet if house-rent, furniture, fuel, and clothing, be advanced, a proportionate addition must be made to them.

Not only, however, does he admit that the price of labour was advanced from 1700 to 1764, but he admits "that cattle, poultry, game of all kinds, the useful minerals and fossils of the earth, &c. were also advanced."(a) "But though these commodities," he says, "naturally grow dearer as the society advances in wealth and improvement, and come to exchange for a greater quantity of silver than before, it will not thence follow that silver has become really cheaper, or will purchase less labour than before, but that such commodities have become really dearer, and will purchase more labour than before. It is not their nominal price only, but their real price, which rises in the progress of improvement. The rise of their nominal price is the effect not of any degradation in the value of silver, but of the rise in their real price."

Under these admissions it is extremely singular that he could have reconciled his mind to the opinion that the general value of money had risen. In his former argument on the value of silver from 1340 to 1570, where he deduced an inference from the low price of corn of an advance in the value of money, no mention was made of the increased price of any other produce, and it might be presumed, that he was unacquainted with the increase; but in this argument, where he admits that for nine species of produce out of ten a greater sum of money must be given than in the preceding century, it is impossible not to conclude, from his own reasoning, that the general value of money was deteriorated. By Sir George Shuck-

(a) See Wealth of Nations, Vol. I. page 339.

burgh's table the value of money fell, from 1640 to 1760, from 180 to 342, or 90 per cent., notwithstanding the counteraction of the reduced price of corn; and by what illusion Dr. Adam Smith could have conceived, that money was on the advance, when £1900. a year in 1760 would go no further for the general purposes of expenditure than £1000. a year in 1640, is wholly inexplicable.

To the distinction, which he endeavoured to establish, that produce might rise in value without a correspondent depreciation of money it is impossible to accede. An increase in the price of produce is necessarily a diminution in the value of money, as the same sum will no longer command the same quantity. But as money may rise in value with reference to one produce, and fall with reference to another, its true appreciation can be only found by a due combination and balance of the respective variations. During the first 64 years of the 18th century, with relation to corn money certainly rose in value, with relation to all other produce it fell; and as its rise with respect to corn was not of sufficient weight to counterbalance its depression with respect to all other produce, its general value necessarily declined.

But even had his argument been more correctly constructed; had it been true, that the value of money had increased during the first 64 years of the 18th century, in consequence of the low price of corn, yet as corn has advanced in price in a greater proportion than any other produce since that period, the value of money during the last forty years would have fallen, in opposition to his

inference, to a greater extent than the estimate of Sir George Shuckburgh's table allows: and the depression would have been, according to his principles, above 100 per cent. instead of 79; unless, indeed, he had contended, as in the instance of every other produce, that it was the corn that rose, and not the money that fell.

The depreciation of money, however, is matter of fact, not matter of argument, and to be exclusively decided by the evidence of prices. If it be proved by the testimony of all public documents, and all authors, that the general prices of any one age were superior to the general prices of the age, that preceded it, it follows as a necessary and inevitable consequence, that the value of money was depreciated, as the same sum would be incompetent to purchase in the latter period the same quantity of produce, which it purchased in the former. That prices have advanced in every period of history from the Conquest to the present time, is recorded by every writer, who has expressly or incidentally inquired into the subject. No doubt whatever can therefore be entertained respecting the fact of an uniform depreciation in the general value of money.

Nor can there, in my opinion, be any rational doubt since the publication of Sir George Shuckburgh's table, respecting the degree of the depreciation, though the degree be certainly more open to controversy than the fact. But the talents, the learning, the high mathematical attainments, and the patient perseverence of research, for which Sir George Shuckburgh was eminent, give but little encouragement to sceptical criticism. He has subjoined

to his table a list of the authors, whom he consulted on its construction; and as this list contains almost every name of authority, that has written on the prices of former times, it is impostible that a statement could be prepared from more satisfactory and authentic evidence. The only point therefore, that can be mooted for discussion, is the selection of the articles for the direction of his judgment to a just ascertainment of the depression. The price of wheat, labour, meat, and the mean price of 12 miscellaneous articles, form the four criteria, from the mean of which his result is derived. This mean gives the value of money at the period, to which each calculation refers, and its value in the intervening periods is deduced by interpolation. Wheat and labour in husbandry were peculiarly selected at the suggestion of Dr. Adam Smith; meat, and the mean of the 12 miscellaneous articles, were added by the dictates of his own judgment, as he was well aware, that the exclusive criteria of corn and labour were inadequate to give a comprehensive result. By this classification corn and labour have decidedly received the full weight of their importance, and if any part of the distribution be exposed to observation, it is, that the 12 miscellaneous articles are curtailed of their due influence, rather than that corn and labour are not allotted their appropriate share.

In the enumeration of the prices of the different periods of the table, it is necessary to observe, that every price, which is recorded, is the mean price of a certain number of years, instead of the current price of the year, to which it relates. The paucity of documents during the earlier ages of our history occasioned too frequent chasms in the

evidence to allow the attainment of a distinct and unbroken series of prices, and Sir George Shuckburgh therefore collated as many precedents, as he was able, of the price of each article during an allotted period, and by striking the mean, gave to every price the authority of the whole period, instead only of the authority of a single year. As they thus assumed the complex character of mean prices, the depreciation, which was deduced from them, attained the same accuracy, or nearly the same accuracy, which a regular series wouldhave afforded, as it was drawn from a compound instead of a simple estimate. But though from 1050 to 1550 the prices enumerated in the table were the mean of whatever instances he was capable of collecting in each successive century, yet from 1550 to the present times, as evidence was more easy of access, each price is the mean of a shorter period, and the depreciation of course more nearly approaches the accuracy, which an unbroken series would have afforded. Not only however, do the prices represent, towards the close of the table, a shorter period, but the list of prices is more complete; and in 1550, 1675, 1740, 1760, and 1795, the price of each article is distinctly mentioned. Even, therefore, if it be said, that any darkness still hangs over the precise ratio of the depreciation of money in the ruder ages of our history, of its ratio from the reign of Elizabeth to the present times no doubt can remain, for as the depreciation is in conformity to the difference of the prices, and as no ground exists for questioning the fidelity of Sir George Shuckburgh's researches in elucidating the difference, no ground can exist for questioning the ratio of the depression.

Upon the general merits of this table, after the preceding explanation, it is needless to descant. It is sufficient to say, that antecendently to its publication all calculations on the relative value of money in ancient and modern times, from the total failure of a graduated scale, were arbitrary and loose. This uncertainty is now removed, and the historical reader is directed through a mass of matter before inaccessible, and enabled to estimate, with a near approximation to truth, the private wealth and the public resources of the country through every reign. But important as is this document to the historian in the review of past events, it is still more important at the present period to give to money the means of forming a more durable measure for the same value, and preventing the loss, which fixed incomes sustain from its constant alteration. The whole of the table is executed with a precision and judgment worthy of the distinguished talents of its scientific and accomplished author, and is an honourable accession to the literature of the age.

Of the opinion, therefore, which Dr. Adam Smith was led to form from the low price of corn, that the value of money was on the advance, instead of the decline, from the commencement of the 18th century, this table is a masterly refutation; and as I have already proved, that the depreciation from 1700 to 1750 extended to 32 per cent., or 10 per cent. above the ratio which the annual proceeds of America could effect; and from 1756 to 1800 to 79 per cent., or 61 per cent. above the ratio which the American proceeds could effect; I shall now endeavour to shew, that the excess in each instance was exclusively

occasioned by the introduction of a new circulating medium in the general publication of paper.



During the first fifty years of the 18th century banks were established, or had already been founded in most of the principal cities of Europe, and the circulation of paper was more or less encouraged by all. I have already observed in my review of Lord Liverpool's Letter to the King, that in the reign of William the Third our currency shewed every indication of an over-charged circulation of paper, an unfavourable exchange, an excess in the market price of money, a debasement of the silver coin, a premium on the gold coin, and a discount on paper. The copper coin was equally defective with the silver, and card tokens were given by the manufacturers in the place of halfpence. The same excessive utterance was prevalent in Scotland, and notes so low as the value of a sixpence were universally current. The Mississippi scheme also caused, though at a somewhat later period, a similar over-issue in France. But the circulation of paper during this interval was intermissive and irregular; though pushed to a nextreme in England and Scotland during the reign of William and part of the reign of Anne, and in France during the regency of the Duke of Orleans, yet its excess was in neither instance of long duration. The currency of England was composed of the paper of the Bank of England and goldsmith's notes; but as the frequent bankruptcies of the goldsmiths discredited their paper, it gradually disappeared, and left to the Bank of England the exclusive supply of the market. The same causes led to a smilar reduction in the paper of Scotland,

and the Mississippi scheme was but a bubble of a few months. The principal bank, moreover, in Europe in the scale and importance of its transactions, was the Bank of Amsterdam, which differed in its constitution from those of England Scotland, and France by b ing a bank of deposi instead of a bank of circulation, and did not therefore so materially contribute to the depression of money; for though the transfer of the recipe facilitated the extended operations of commerce, yet as it could not be substituted for specie in the dealings of retail trade, it could not in the same degree conduce to an advance of prices as the publication of an inferior paper. Since, then, the over-utterance of paper was only effected at certain intervals, and was only productive of an extraordinary depression at the period of the over-utterance, it is not matter of surprise, that the regular depreciation of money, which resulted from the introduction of the new medium, during the first fifty years of the 18th century, did not exceed 10 per cent.

But from 1750 to 1800 the system of a paper currency, however unpropitious in its commencement, was matured and perfected in every part of the civilized world. In England, Scotland, and Ireland, in France, Spain, Portugal, Italy, Austria, Prussia, Denmark, Sweden, and Russia, in America, and even in our Indian provinces, the new medium has been successfully established, and has subjected the intercourse of the world, in all its inferior as well as superior relations, to be carried on in a far greater degree by the intervention of paper than the intervention of specie ; and as all nations have encouraged

its utterance, without intermission or pause to a considerable extent, and many to a pernicious extreme, the depreciation, which has ensued, has necessarily exceeded the depreciation of the former period, and has surpassed the ratio, which the remittances from America could effect, by 61 per cent. instead of 10.

It has, however, been conceived by many, that the issue of paper has no tendency to depress the value of money, and Dr. Adam Smith, in opposition to the sentiments of Mr. Hume, was among those, who advocated this opinion. But if it be true, that all prices are in proportion to the quantity of currency, and that the quantity of currency is augmented by the publication of paper, it necessarily follows, that paper must occasion an advance of prices correspondent with the augmentation, and proportionally depress the value of money. Were the currency of a country to consist of one million of specie and ten millions of paper circulated at par with specie, I know not by what reasoning it can be maintained that prices would remain at the point, at which they stood with the one million of specie only; for if paper answer the purposes of money, it must of course contribute to an advance of prices in the same manner as an addition of so much money; and if it do not answer the purposes of money, it can be of no advantage to the banks, that utter it. The very motive, therefore, with which it is published, sufficiently implies a depressive power; but as the power is exclusively limited by its ability to fulfil the office, and duly act as a substitute for money, if the paper be reduced to a discount, and be not convertible into the sum, which it

expresses, the power will necessarily be diminished in the same ratio, and have no influence beyond the actual amount of specie, for which it will exchange.

Dr. Adam Smith, indeed, was so well aware of the validity of this reasoning, and that paper would depress the value in proportion as it answered the purposes of money, that he was led to contend, from a disavowal of the depreciation since the establishment of the banking system, that the issue of paper caused no addition to the aggregate amount of currency, and endeavoured to prove, that it could never exceed the value of the gold and silver, of which it supplied the place, or which would circulate if there were no paper. According to his own explanation, (*a*) "Let us suppose that the whole circulating money of some particular country amounted at a particular time to one million sterling, that sum being then sufficient for circulating the whole annual produce of its land and labour; let us suppose, too, that some time thereafter different banks and bankers issued promissory notes, payable to the bearer, to the extent of one million, reserving in their different coffers two hundred thousand pounds for answering occasional demands. There would remain, therefore, in circulation £800,000. in gold and silver, and a million of bank notes, or £1,800,000. of paper and money together. But the annual produce of the land and labour of the country had before required only one million to circulate and distribute it to its proper consumers, and that annual produce cannot be immediately augmented by those operations of banking; one million,

(*a*) Vol. I. page 436.

therefore will be sufficient to circulate it after them. The goods to be bought and sold being precisely the same as before, the same quantity of money will be sufficient for buying and selling them. The channel of circulation, if I may be allowed such an expression, will remain precisely the same as before: one million we have supposed sufficient to fill that channel; whatever, therefore, is poured into it beyond this sum, cannot run it, but must overflow: £1,800,000. are poured into it; £800,000., therefore must overflow,(*a*) that sum being over and above what can be employed in the circulation of the country. But though this sum cannot be employed at home, it is too valuable to be suffered to lie idle; it will be therefore sent abroad in order to meet that profitable employment, which it cannot find at home. But the paper cannot go abroad, because at a distance from the banks, which issue it, and from the country, in which payment of it may be exacted by law, it will not be received in common payments. Gold and silver, therefore, to the amount of £800,000. will be sent abroad, and the channel of home circulation will remain filled with a million of paper, instead of a million of those metals which filled it before." He again supports the same opinion in these words: (*b*) "The whole paper money, of every kind which can easily circulate in any country, never can exceed the value of the gold and silver of which it supplies the place, or which (the commerce being supposed the same) would circulate there if

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(*a*) Dr. Adam Smith never took into calculation the absorption of the increased proportion by a correspondent advance of prices. See the first chapter of this work, p. 27.

(*b*) Vol. I. page 448.

there was no paper money. If 20*s.* notes, for example, are the lowest paper money current in Scotland, the whole of that currency, which can easily circulate there cannot exceed the sum of gold and silver, which would be necessary for transacting the annual exchanges of 20*s.* value and upwards, usually transacted within that country. Should the circulating paper at any time exceed that sum, as the excess could neither be sent abroad, nor be employed in the circulation of the country, it must immediately return upon the banks to be exchanged for gold and silver. Many people would immediately perceive, that they had more of this paper than was nesessary for transacting their business at home, and as they could not send it abroad, they would immediately demand payment of it from the banks. When this superfluous paper was converted into gold and silver, they could easily find a use for it by sending it abroad; but they could find none while it remained in the shape of paper: there would immediately, therefore, be a run upon the banks, to the whole extent of this superfluous paper, and if they shewed any difficulty or backwardness in payment, to a much greater extent, the alarm, which this would occasion, necessarily increasing the run." By this conception of the principles of a paper currency, Dr. Adam Smith undoubtedly maintained the consistency of his general reasoning. Had he admitted the depreciation of money during the 18th century beyond what the proceeds from America could produce, it would have been impossible for him to have contended, that paper made no addition to the aggregate stock of circulation. But as he was misled, by the low price of corn, to controvert the depression, he was, of necessity, compelled to contend, that paper had no power to occasion it.

But as Dr. Adam Smith was incapable of attaining to the principle, which regulated, in all countries, the amount of their specie, he was of course incapable of discovering the principle, which regulated in all countries the amount of their paper; for as paper fulfils the office of money, it must necessarily be subjected to the same laws, or nearly the same laws, which govern the action of money; and I shall endeavour to shew, that the paper of any given country, instead of being limited to the amount of the gold and silver, which would circulate if there were no paper, may be augmented, without reduction to a discount, to an indefinite extent, provided that the paper of other countries shall be augmented in a similar ratio.

The only principle, which operates as a check upon the partial accumulation of specie is the principle of equivalency, which directs, that when its quantity shall be augmented in any given country to such an extent as to cause the same sum to measure a less value than a similar sum in other counties, the surplus proportion shall be duly distributed among them, to bring the currency of all to the same relative amount.

The same principle equally operates as a check upon the partial accumulation of paper, and adjudges, that when the paper of any particular country shall be uttered to such an extent as to cause a given sum, or the quantity of paper expressive of a given sum, to measure a less value than a similar sum in other countries, the paper, if convertible at option into specie, shall be returned by the bullion merchants upon the banks that issued it; and if

not convertible at option into specie, be reduced to a discount commensurate with the excess, as I fully attempted to prove in the third chapter of this Inquiry. But as this principle cannot be violated if all countries utter a correspondent proportion, the general amount of paper throughout the world may be carried to an unassignable extent, and instead of being limited by the value of the gold and silver, which would circulate if there were no paper, proceed without restriction to an indeterminate superiority. If at the time that a considerable publication was made by any particular country, the same relative publication were made by all others, the same sum, though deteriorated below its prior worth, would still continue to measure in all an equal value, and as no alteration would in consequence take place in the exchange, no excess occur in the market price of money, no run be made upon the banks for specie, no discount attach to paper, and no premium to gold, it is impossible, that any check whatever could arise from natural causes to obstruct the augmentation to an illimitable extension. The practical check to the utterance of paper exclusively results from an unfavourable exchange; but as no unfavourable exchange can occur without a disparity of prices, and as no disparity of prices can originate without a disproportionate amount of currency, no limitation to the issue of paper can be assigned, so long as the same relative publication is universally effected. I do not, however, mean to contend, that all countries have uttered the same proportion, as there has been a constant alternation of excess and deficiency, and some have scarcely any paper, and some scarcely any thing else, but that the issue

of paper, proceeding on the principle of the same relative augmentation, may be carried to an indefinite superiority above the quantity of the gold and silver, which would circulate if there were no paper.

But though the amount of paper cannot be augmented to an interminable extent, unless the same proportionate publication be made in every part of the world, yet it by no means follows that it cannot be augmented to a considerable superiority above the quantity of gold and silver, which would circulate if there were no paper, notwithstanding, that the issue may be every where disproportionate; for as it is only necessary, that the aggregate amount of the currency of each country should be relatively the same, it is possible that the currency of one may consist of $\frac{6}{10}$ of paper and $\frac{4}{10}$ of specie; of another of $\frac{7}{10}$ of paper and $\frac{3}{10}$ of specie; of another of $\frac{8}{10}$ of paper and $\frac{2}{10}$ of specie; and of another of $\frac{9}{10}$ of paper and $\frac{1}{10}$ of specie, which would give to paper a decisive preponderance, though all maintained an equal proportion of currency: and this is in reality a correct delineation of the existing state of the circulation of Europe. In England, Scotland, and Ireland, in Denmark, and in Austria, scarcely any thing but paper is visible. In Spain, Portugal, Prussia, Sweden, and European Russia, paper has a decisive superiority. And in France, Italy, and Turkey only, the prevalence of specie is apparent. Since, therefore, in $\frac{10}{13}$ of Europe the quantity of paper surpasses the quantity of specie, and in $\frac{3}{13}$ only the quantity of specie surpasses the quantity of paper, the aggregate amount of paper will necessarily exceed, in a very considerable degree the aggregate amount of

specie. And this superiority of the paper, great as it is, would have been still greater, had not the obstruction, which the Revolution eventually occasioned to its circulation in France and Italy, narrowed its extension in the other states; for as it was impracticable for the countries, that uttered it, to carry its amount above the specie of the countries, where it was abandoned, the quantity, which each was enabled to maintain in circulation, could never exceed in relative amount the specie of the states, that resisted it. But should France and Italy sufficiently recover from the effects of the Revolution to be capable of creating a new system, there can be no doubt but that the present undue proportion of paper will be pushed to a greater extreme.

As decisive evidence in confirmation of the opinion, that the amount of paper is not regulated by the amount of the gold and silver, which would circulate if there were no paper, it is only necessary, as I before noticed, to adduce the fact of the advance of prices during the first fifty years of the 18th century 10 per cent., and during the second fifty 61 per cent. above the standard, to which the proceeds from America could have raised them. Had not the quantity of paper exceeded the quantity of gold and silver, which would have circulated had there been no paper, this advance could never have occurred; and prices would in the first fifty years have been elevated no more than 22 per cent. instead of 32, and in the second fifty no more than 18 per cent. instead of 79. The excess in both instances conclusively attests a proportionate excess of paper.

The errors of Dr. Adam Smith on the circulation of paper originated, in the same manner, as his errors on the limitation of specie in his inability to attain to a correct perception of the principle of equivalency. He was led by the view, which he took of his subject, to imagine, that the currency of every country was a definite sum, that could not be augmented beyond the just purposes of circulation; and, as he perceived, that the specie of a country sometimes disappeared upon the utterance of paper, he inadvertently drew the inference, that in every instance where so much paper was issued, a similar quantity of specie was withdrawn from circulation. But, though upon a relative excess of utterance in any given country a due proportion of specie be transferred to other states, to maintain the uniformity of the measure of value, yet the efflux of coin is by no means a necessary result of the issue; for if the currency of any one country were relatively inferior to the currency of others in consequence of a more confined circulation of paper, so far would the paper be from causing the departure of specie, that an additional proportion would be received from other countries to augment its currency to the same relative amount. I am willing, however, to admit, that the quantity of coin throughout the world has been considerably diminished since the introduction of paper, and that a less proportion of the proceeds from the American mines continued in a state of coin during the 18th than during the 17th century; but this diminution has taken place, not because so much specie has been withdrawn in consequence of the issue of so much paper, but because bullion has been rendered comparatively cheaper with

relation to all other produce, than it was antecedently to the circulation of paper, and has consequently been applied in a greater degree to the purposes of manufacture.

Had Dr. Adam Smith's positions been correct, that the quantity of specie, in every country, could never exceed the sum, that was necessary for the due transaction of the annual exchanges of the produce of its land and labour, and that the quantity of paper could never exceed the value of the gold and silver, of which it supplied the place, or which would circulate if there were no paper, money would in all ages have constituted an equal measure for the same value, and the circulating system of the world would have been completely perfect, as the sum, which is necessary for the just purposes of circulation, is precisely that sum, which would maintain an invariable uniformity of prices. But, in reasoning on the influx of money from America in the reign of Elizabeth, Dr. Adam Smith himself admitted the fallacy of his principles, for as he acknowledged, that money sustained during that period an extraordinary depression, he of course conceded, that it had increased beyond the necessary amount, or no depression could have occurred. It is because the quantity of real or factitious money has, in all ages, been superior to the sum, that was necessary for the just purposes of circulation, and because money has not constituted one and the same measure of value, that the circulating system of the world, which has regularly led to a greater relative increase of currency than the increase of produce authorised, has been so peculiarly defective. Had his positions been well founded, it would have attained to a state of

perfection, which it would be vain to expect that it can ever acquire; for, much as it may be ameliorated, it must still, from the impracticability of bringing currency and produce to bear the same uniform proportion to each other, be ever imperfect.

Having thus endeavoured to prove, that the amount of paper has greatly exceeded the amount of the gold and silver, which would have circulated had there been no paper, and having previously proved, that paper depresses the value in proportion as it answers the purposes of money, it necessarily follows, that the depreciation, which has taken place during the 18th century, beyond what the American proceeds could effect, has exclusively resulted from the introduction of a new circulating medium in the general publication of paper.

In order, however, to shew in a clearer light the progressive enlargement of the means of circulation by the publication of paper, I have extracted from the Reports of the Secret Committees of 1787, and Lord King's Tables, an account of the annual amount of the notes of the Bank of England from 1782 to 1803; and this account is of the more importance, as it points out by analogy the addition, which has been made to the respective currencies of the other states of Europe; for, as all must possess the same relative quantity, it is impossible that an augmentation can occur in the one unless a proportionate augmentation be effected in the others.

| | |
|---|---|
| *1782 - - | £.7,575,605 |
| 1783 - - - | 6,552,597 |
| 1784 - - - | 6,209,855 |
| 1785 - - - | ——— |
| 1786 - - - | ——— |
| 1787 - - - | 8,688,570 |
| 1788 - - - | 9,370,350 |
| 1789 - - - | 9,705,240 |
| 1790 - - - | 10,217,360 |
| 1791 - - - | 11,699,140 |
| 2792 - - - | 11,349,810 |
| 1793 - - - | 11,451,180 |
| 1794 - - - | 10,963,380 |
| 1795 - - - | 13,539,160 |
| 1796 - - - | 10,030,110 |
| 1797 - - - | 11,642,400 |
| 1798 - - - | 13,224,440 |
| 1799 - - - | 14.006,960 |
| 1800 - - - | 15,450,970 |
| 1801 - - - | 16,365,206 |
| 1802 - - - | 16,747,300 |
| 1803 - - - | 17,931,930 |

By this statement it appears, that from 1782 to 1803 the notes of the Bank of England progressively increased from £.7,500,000 to 17,900,000, or 137 per cent. It is competent, therefore, to presume, that other countries acquired a similar accession; and though no table be

* In 1782, 1783, and 1784, I have taken the average of the returns for four months in each year. No returns were made for 1785 and 1786.

published on the plan of Sir George Shuckburgh's illustrative of the regular depreciation of money on the continent, yet no doubt can be entertained from the instances which Mr. Arthur Young has collected of the advance of prices, that the depression has proceeded to a correspondent extent. These instances, indeed, go to prove a greater depression, but as they were loosely prepared from oral testimony, without any attempt to deduce a regular conclusion from average prices, they must be taken rather to shew the universal sense of the fact of the depression than its degree, for if it be true, that all countries must possess the same relative amount of currency, it necessarily follows that the degree of the depreciation must be every where the same.

*Rise of Prices in France.*(*a*)

Sologne—La Ferté.—Cattle of all kind increased in price more than a third in one year. A cow from 48*li.* to 90*li.*; a horse 7 or 8 louis to 12½; a hog 15*li.* to 30*li.* It has been owing to a want of forage.

Berry—Vatan. See two good cart horses, which were sold this year for 20 louis each; and several farmers asserted, that a horse, which three years ago was worth 5 louis, would now bring 12.

Limosin — Limoges. The same quantity of cord wood which was sold 15 years ago at 50*li.* now sells at 150*li.* Land greatly raised in its value, and husbandry doubly more productive than 20 years ago.

Languedoc — Bagnere de Luchon. The measure of

(*a*) See Mr. Arthur Young's Travels, Vol. I. p. 453.

CHAPTER XI.

land, called the coperade, which some years since sold at 12*li.* is now at 24*li.* and even 30*li.*

Bayonne. Within ten years, the prices of every thing, including house rent, very much increased.

Bourdeaux. Very great increase in the price of every thing in ten years.

Isle of France—Liancourt. Within ten years, the geneneral expenses of living, bread alone excepted, have risen 50 per cent., and labour nearly in the same proportion.

Normandy—Havre. A house which in 1779 let without any fine, on a lease of six years, for 240*li.* per annum, was let this year again for three years, with a fine of 25 louis, for 600*li.* per annum. A cellar which is now 60*li.* was 24*li.* twelve years past.

Bretagne—Rennes. Cord of wood 16*li.* In 1740 it was $9\frac{1}{2}$.

Champagne—St. Menehoud. Cord of wood 18*li.* 10 *sous*, but 25 years ago 7*li.* 10 *sous*.

Lorraine—Pont au Mousson. The prices of the nenessaries of life risen one-third in 20 years.

Luneville. Cord of wood now 26*li.* was 52 years ago 9*li.*

Strasbourg. Cord of wood 27*li.* which 20 years ago was 12 to 15*li.*

Franche Compte. Those estates which 20 years ago sold at 300*li.* now are 800*li.*

Besançon—Dole. Meat now 7 *sous* the *lb.* some years ago 4 *sous;* a couple of fowls 24 *sous*, which were 12 *sous*. In general, every thing is doubled in price in ten years.

Bourgogne—Dijon. Every thing raised in 20 years cent. per cent.

*Rise of Prices in Italy.*



The prices of every thing are now at Bologna from 10 to 15 per cent. dearer than ten years ago; here attributed to the increased plenty of money, from a rise of the price of the products of the country, hemp and silk selling much higher. Twenty years ago hemp was at 30 pauls, now at 50; and in Tuscany the prices of every thing have doubled since the free corn trade.

# CHAPTER XII.

*On the Effects of the Depreciation of Money.*

CHAPTER XII.

HAVING stated in the preceding Chapter the different causes of the depreciation of money, and consequent alteration of the measure of value, I shall now proceed to consider the effects.

As money, from its properties as a measure of value, and medium of exchange, is made the instrument in permanent contracts for carrying into effect certain acts, which one of the contracting parties would otherwise be required to perform, it is of essential consequence, that the same sum should measure as nearly as possible for successive years the same value, in order that the implied conditions of the agreement should be duly executed according to the original intention of the parties. For if, by a depreciation in the value of money, subsequently to the completion of the compact, the same sum should no longer possess the same power, the stipulated terms could no longer be fulfilled in conformity to the true spirit of the contract, as the means would cease to be adequate to the end desired. During the feudal ages, which immediately succeeded the fall of the Roman empire, when service was exacted in lieu of revenue, and lands were held by the performance of obligatory duties; and at the commencement of

a less turbulent æra, when the duties were commuted for a rent in kind, with the reservation of but a small proportion in money, it was not of material import that money should constitute, for a period of long duration, one and the same measure of value; but, when society again attained to a state of civilization, and the public revenue of the country, the appropriated income of the crown, the emoluments of the great officers of state, the pay of the army and navy, the rent of land, the interest of annuitants, and the wages of labour, became exclusively regulated by the medium of money, and fixed at a determinate sum, it was highly important that money should discharge the functions of its intermediate agency with due efficiency.

But the reasoning of the preceding chapter sufficiently shews, that money has hitherto formed an inefficient instrument for carrying into effect the conditions of permanent compacts; and that those, who have accepted a fixed income in compensatiom for certain advantages, which would have been otherwise conferred, have been constantly receiving a less and less than their due proportion, as the same sum has been constantly losing more and more of its primitive power. At one and the same period the same sum is uniformly made to measure the same value in every part of the world, exclusive of the charge of transit, as a sufficient profit is attainable on the fluctuation of its value, above or below this charge. to support the principle of equivalency; but so far is any principle from being in motion to cause the same sum to measure the same value at different periods, that a strong interest is regularly operating to prevent it, and mines

and banks are perpetually augmenting the means of circulation, without any power of control from those, who suffer by the alteration. As money has thus been brought to express a different value at different periods, it has necessarily been disabled from discharging the office of mediation in contracts of long duration with requisite precision. This disability will sufficiently appear from an inquiry into the effects of the depreciation of money on the increase of our public revenue and national debt, during the 18th century.

In the compact, which the people entered into with their government, for the contribution of a certain income, it was implied, that the income should be fully competent to fulfil the conditions, or answer the purposes, for which it was granted. But I shall endeavour to shew, not only that it was wholly inadequate for the permanent execution of the stipulations of the agreement, but that such was the depreciation of money, that the public revenue was nearly diminished in value in the same ratio, in which it was increased in nominal amount, throughout the whole century.

According to Sir George Shuckburgh's table the depreciation of money during the 18th century proceeded in the following ratio, its value in 1700, being assumed at 238.

| A. D. | | A. D. | |
|---|---|---|---|
| 1700 | 238 | 1760 | 342 |
| 1710 | 247 | 1770 | 384 |
| 1720 | 257 | 1780 | 427 |
| 1730 | 272 | 1790 | 495 |
| 1740 | 287 | 1800 | 562 |
| 1750 | 314 | | |

Two hundred and thirty-eight pounds, shillings, or pence, therefore, in 1700, were equal to five hundred and sixty-two pounds, shillings, or pence, in 1800, and all the different sums were at the year, to which they are appropriated, equal to each other, or would have changed at their respective periods for the same value. By the application of these proportions in the following calculation, it will be seen that, through the greater part of the century, the public revenue was diminished in value nearly in the same ratio, in which it was augmented in magnitude.

The public revenue of Queen Anne, at the time of the Union, in 1707, according to Sir John Sinclair's account, was £5,690,000. which, by assuming the value of money in that year at 245, and the value of money in 1800 at 562, will make her revenue equal to £13,050,000. of the money of 1800. The public revenue of the different reigns of the 18th century, estimated upon this principle, will be as follows:

| | | (a) | (b) | (c) £. | (d) £. |
|---|---|---|---|---|---|
| Queen Anne | 1707 | 245 | 562 | 5,690,000 | 13,050,000 |
| George I. | 1727 | 267 | 562 | 6,760,000 | 14,228,000 |
| George II. | 1760 | 342 | 562 | 8,520,000 | 14,000,000 |
| George III. | 1770 | 384 | 562 | 9,500,000 | 13,900,000 |
| George III. | 1780 | 427 | 562 | 12,200,000 | 16,000,000 |
| George III. | 1790 | 496 | 562 | 15,500,000 | 17,500,000 |

By this calculation it not only appears, that the sums, which were granted, at the commencement of the century, were incompetent to answer the same purposes at the close, but that, from 1707 to 1770, the depression of money proceeded to such an extent, that it, in most instances, kept pace with the increase of the revenue, and in some even advanced with greater rapidity; that the revenue of Queen Anne, though nominally four, was in reality only one million less than the revenue of his present Majesty in 1770; that the revenue of George II. at the commencement of his reign in 1727, was superior to his revenue in 1760, though nominally two millions less, and superior to the revenue of his present Majesty, in 1770, though nominally three millions less; and that the revenue of 1760 was superior to the revenue of 1770, though nominally one million less. It is evident, therefore, that the public burthen pressed with nearly an equal weight upon the people, through the greater part of the preceding

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(*a*) This column gives the value of money at the stated periods.
(*b*) The value of money in 1800.
(*c*) The revenue at the stated periods.
(*d*) The value of that revenue in the money of 1800.

century; and that the nation was more severely taxed in in 1727, than in 1760 or 1770, though the pressure were supposed to be considerably heavier in the latter periods. According to Sir John Sinclair, the total expenditure of Queen Anne's reign was £122,000,000, which, by fixing the medium value of money in her reign at 247, will be equal to £277,000,000. of the money of 1800; and, as her annual average expenditure was £10,000,000., equal to £22,000000. of the money of 1800, it equalled the annual average expenditure of the present reign.

But the following calculation, constructed on the same principle, will give a general view in round numbers of the comparative value of the revenue, during the 18th century.

| | | | £. | £. |
|---|---|---|---|---|
| 1700 | 238 | 562 | 4,000,000 | 9,400,000 |
| 1710 | 247 | 562 | 5,500,000 | 12,500,000 |
| 1720 | 257 | 562 | 6,000,000 | 13,100,000 |
| 1730 | 272 | 592 | 6,500,000 | 13,400,000 |
| 1740 | 287 | 562 | 7,000,000 | 13,700,000 |
| 1750 | 314 | 562 | 7,500,000 | 13,400,000 |
| 1760 | 342 | 562 | 8,500,000 | 13,900,000 |
| 1770 | 384 | 562 | 9,500,000 | 13,900,000 |
| 1780 | 427 | 562 | 12,000,000 | 15,700,000 |
| 1790 | 496 | 562 | 15,000,000 | 17,500,000 |
| 1800 | 562 | 562 | 30,000,000 | 30,000,000 |

It is true, that if money had remained at a fixed value, previously to 1800, the revenue would not, in that year, have amounted to so large a nominal sum, as such extended supplies would not have been required for the public

service. But, as it has been depressed to such an extent, it is necessary, for the direction of our future policy, to ascertain what diminution the revenue has sustained by the depreciation, which the following table, by shewing its gradual increase in the existing money of the times, and the value of that increase in the money of 1800, will in some degree explain.

In the year 1700 our revenue, in the money of the times, was £4,000,000. which, according to the proportions of Sir George Shuckburgh's table, was equal to £9,400,000. of the money of 1800; and the increase, from 1700 to 1800, being £1,500,000. was equal to £3,400,000. of the money of 1800. The progressive increase of the public revenue, estimated upon this principle, will be in the following ratio:—

| | £. | | £. |
|---|---|---|---|
| In 1700 - | 4,000,000 | equal to | 9,400,000 |
| From 1700 to 1710 - | 1,500,000 | — | 3,400,000 |
| 1710 — 1720 - | 500,000 | — | 1,090,000 |
| 1720 — 1730 - | 500,000 | — | 1,030,000 |
| 1730 — 1740 - | 500,000 | — | 970,000 |
| 1740 — 1750 - | 500,000 | — | 890,000 |
| 1750 — 1760 - | 1,000,000 | — | 1,640,000 |
| 1760 — 1770 - | 1,000,000 | — | 1,460,000 |
| 1770 — 1780 - | 2,500,000 | — | 3,290,000 |
| 1780 — 1790 - | 3,500,000 | — | 3,960,000 |
| 1790 — 1800 - | 14,500,000 | — | 14,500,000 |
| | 30,000,000 | | 41,630,000 |

By this table it is evident, that if the money of the whole century had been equal to the money of 1800, the

revenue would have been, in 1800, £41,000,000. instead of £30,000,000.; if its value had remained stationary, in 1700, the revenue, though nominally less, would have been equal to £41,000,000.; and, if it had been stationary at a subsequent period, in proportion as that period was nearer to 1700, the revenue would have been more nearly equal to £41,000,000.; but, as the depression continued throughout the whole century, it experienced the entire loss of £11,000,000.

The greater part of this loss has been sustained by the public creditors. There is no doubt, but that many other classes, among whom the public revenue is divided, have suffered a partial injury; but the great and leading sufferers are the proprietors of national stock. The subsequent calculation, shewing the gradual increase of the debt in the money of the times, according to the proportions of Sir George Shuckburgh's table, and the value of that increase in the money of 1800, will, in some measure, point out the extent of their loss.

| A. D. | Amount of the debt at the stated periods. | Gradual increase of the debt. | Value of the increase in the money of 1800. |
|---|---|---|---|
| 1700 - | 16,000,000 - | 16,000,000 - | 37,700,000 |
| 1710 - | 44,000,000 - | 28,000,000 - | 63,700,000 |
| 1750 - | 72,000,000 - | 28,000,000 - | 50,100,000 |
| 1760 - | 88,000,000 - | 16,000,000 - | 26,200,000 |
| 1770 - | 126,000,000 - | 38,000,000 - | 55,600,000 |
| 1780 - | 142,000,000 - | 16,000,000 - | 21,000,000 |
| 1790 - | 238,000,000 - | 96,000,000 - | 108,700,000 |
| 1800 - | 451,000,000 - | 213,000,000 - | 213,000,000 |
| | | 451,000,000 | 576,000,000 |

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By this table it appears, that the national creditors had in reality advanced £576,000,000. to government, for which only £451,000,000. were put to their credit, and that they sustained the loss of £125,000,000. in the course of the century.

But it must be admitted, that these calculations are extremely loose. The state of the revenue is taken in round numbers from Sir John Sinclair's history, but in too imperfect a manner, for any other purpose, than merely to shew the general effect of the depression of money. The state of the public debt is taken from an account made out by order of the House of Commons, and is extracted from the Appendix to Mr. M'Arthur's Political Facts. Though the debt amounted to more than £44,000,000. in 1710, yet as it was subsequently reduced to this sum, I forbore to take it higher, as the calculation is formed, on the gradual increase of the debt, without any allowance for the sums that were liquidated after many years standing. Had these sums been included, the estimate of the loss, which the public creditors have sustained, would have been carried to a greater extent.

Much, however, as I regret the want of accuracy in the foregoing statements, they are still sufficiently correct, for the purpose of shewing the operation of the principle. But the following calculation, the accuracy of which is less disputable, will shew more correctly the injury, which every creditor has individually sustained, during the period that he has held a proportion of the

public debt; for as the same depression must occur in any given number of pounds, which occurs in a single pound, the depression of the one will necessarily give the depression of the other.

By applying the proportions of Sir George Shuckburgh's table to the value of the pound sterling, through every ten years of the preceding century, the following statement will be the result of the calculation.

| | £. | s. | d. | |
|---|---|---|---|---|
| In 1700 - | 0 | 8 | $5\frac{1}{2}$ | |
| 1710 - | 0 | 8 | $9\frac{1}{2}$ | |
| 1720 - | 0 | 9 | $1\frac{3}{4}$ | |
| 1730 - | 0 | 9 | 8 | |
| 1740 - | 0 | 10 | $2\frac{1}{2}$ | Were equal to a |
| 1750 - | 0 | 11 | 2 | pound sterling |
| 1760 - | 0 | 12 | 2 | of 1800. |
| 1770 - | 0 | 13 | $7\frac{3}{4}$ | |
| 1780 - | 0 | 15 | $2\frac{1}{4}$ | |
| 1790 - | 0 | 17 | $7\frac{3}{4}$ | |
| 1800 - | 1 | 0 | 0 | |

As this table shews, that the pound sterling was depreciated one fourth, or nearly one fourth, from 1780 to 1800, it is manifest, that every individual, who held a proportion of the national debt, during that interval, lost one fourth of his principal and interest; and in the same manner may be calculated the loss, which he sustained, during a longer period.

Not only, therefore, do the preceding calculations demonstrate, that money has hitherto formed an inadequate

instrument for the permanent fulfilment of the conditions, which every pecuniary compact implies, but they shew the powerful effect of the depreciation of money, in lessening the value of the revenue, and the silent reduction, which it works, of the real, though not nominal amount of the national debt; but, as the depreciation of the last twenty years is more immediately interesting, than the depreciation of the preceding period, and has been more fully and clearly attested, I shall more particularly confine my observations to this interval.

As it was proved by the last calculation, that from 1780 to 1800, the value of the pound sterling was nearly depreciated one fourth, it is obvious, that any given sum in 1800 would only exchange for three-fourths of the value for which it would have exchanged in 1780; and that any person, receiving the same fixed nominal sum in 1800, would only receive three-fourths of the value, which it possessed twenty years before. By this alteration in the value of money, the public have been exonerated from the payment of one-fourth part of the revenue then existing; and the public creditor has been deprived of one-fourth of the principal and interest of the stock, at that time placed to his credit in the national debt.

As an augmentation of currency invariably causes a general increase of unrestricted incomes, by a commensurate advance of prices, the public regain, in part, what they contribute, and lessen the revenue in the same proportion, in which the value of money is depressed. If a person, possessing forty pounds a year, be taxed eight

pounds, being a fifth of his income, and he afterwards be taxed two pounds more, making his contribution a fourth; and by an advance in the produce which he sells, he increase his income to fifty pounds a year, he again reduces his contribution to a fifth, and regains the two pounds, which he gave: and as ten pounds will exchange for no more after the increase than eight pounds previously to it, the revenue of government, though nominally augmented, is reduced to the same value, which it possessed before the additional duty. By this operation, the depression of money held such regular pace with the increase of the revenue, through the greater part of the preceding century, diminishing it in value in the same ratio, in which it was augmented in magnitude, and exonerating the public from the increased burthen in the same proportion in which the value of money was lessened.(*a*)

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(*a*) The observations that appeared in the British Critic,* on the proportionate pressure of the public burthen, are highly deserving of attention; and it is much to be regretted, that the learned author has not favoured the public with a specific treatise on the subject. As it has been ably proved, in the masterly Essay of Mr. Malthus, that where the moral check to an increase of population, as in this country, has continued to operate with undiminished effect, and population has, notwithstanding, augmented, the means for the support of the population, must have necessarily increased in the same ratio, the author of the Review has rightly contended, that the pressure of taxation is to be determined by the number of contributors; and that if the relative population of the two periods, of 1700 and 1800, be taken into consideration, together with the relative value of money, it will appear that one pound could be raised in 1800 with the same facility as 5*s*. 3½*d*. instead of 8*s*. 5½*d*. in 1700. In his own words: "It has been shewn, that on account of the increase

* See British Critic for February, 1804, page 132.

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By this operation it reduced the revenue one quarter between 1780 and 1800, and is still continuing its reduction.

By the same operation it reduced the principal and interest of the national debt; for as the pound sterling

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of the number of contributors, the state could collect one pound in the year 1800, with the same burthen upon them as 0,6256 or 12*s*. 6*d*. in 1700. Moreover, on account of the fall of the value of money separately taken, the burthen of the payment of £562. at the end of the century having been no more than that of 238 at that of the preceding, by Sir George Shuckburgh's table, one pound was paid in 1800 with the same facility as 0,4234, or 8*s*. 5½*d* in 1700, and consequently 0,6256, or 12*s*. 6*d*. in the more recent period with the same facility as 0,2649, or 5*s*. 3½*d*. in the more remote. Therefore the payment of 20*s*. by the nation at one period was attended with no more burthen than that of 5*s*. 3½*d*. at the other; or a million might have been raised on the subject in the last year of the 18th century, with as little burthen as £264,900. at the end of the preceding; and conversely £3,774,000. in 1800 as £1,000,000. in 1700; and here the fraction 0,2649 is the product of 0,6256 and 0,4234, and 3,774 is the reciprocal thereof; and having given the amount of any payment to the state in the years 1700 and 1800, that of a charge of equal burthen at the other may be found in one of the following tables, as also for all intermediate years.

TABLE I.

*Sums levied in Taxes in certain years, equal in burthen to £1. so levied in year* 1800.

| Payment 1800 Years. | 1*l*. or 20*s*. increasing fixed | Col. 1, 1*l*. Prices Population. | *s*. | *d*. | Col. I. 1*l*. Population Prices. | *s*. | *d*. | | Col I. & C. II. increasing both. | *s*. | *d*. |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1700 | | 0.4234 | 8 | 5½ | 0 6256 | 12 | 6 | Equal national burthen in years. | 0.2649 | 5 | 3½ |
| 1720 | | 0.4572 | 9 | 1½ | 0.6871 | 13 | 8¾ | | 0.3142 | 6 | 3¼ |
| 1740 | | 0.5106 | 10 | 2½ | 0 7547 | 15 | 1 | | 0.3754 | 7 | 8¼ |
| 1760 | | 0.6085 | 12 | 2 | 0.8289 | 16 | 6¾ | | 0.5044 | 10 | 1 |
| 1780 | | 0.7597 | 15 | 2¼ | 0.9104 | 18 | 2¼ | | 0.6917 | 13 | 10 |
| 1800 | | 1.0000 | 20 | 0 | 1.0000 | 20 | 0 | | 1.0000 | 20 | 0 |

was depreciated one fourth, and as a similar depreciation was effected in any given number of pounds, it is obvious, that the public creditors, in the receipt of their interest, obtained in 1800 only three fourths of the value, which they received in 1780; that the proprietor, who in the former period held £400. a year, received in the latter no more than what £300. would have then commanded, and that one fourth of his income was regained by the public. The same reduction was made in the principal which was made in the interest, and in the instance of alienation, he received only three fourths of the value, which it possessed in 1780. By this effect, though no diminution occurred in the nominal amount of the debt, yet a similar diminution took place in its real amount, as if an actual payment of the part depreciated had been accomplished. A deterioration in the value of the nominal sum received by the depression of money, is similar to a reduction in the real amount, where the value has continued without variation, as the same nominal sum, at a reduced value, will exchange for no more than a proportionally diminished sum of the same value.

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## TABLE II.

*Sums levied in* 1800, *equal in burthen to* £1. *raised in certain years.*

| Payment 1700 Years. | 1*l.* or 10*s.* increasing fixed | Col. I. 1*l.* Prices Population. | *l.* | *s.* | *d.* | Col. I. 1*l.* Population Prices. | *l.* | *s.* | *d.* | Col. I. & Col. II. increasing both. | *l.* | *s.* | *d.* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1700 | | 2.3613 | 2 | 7 | $2\frac{1}{2}$ | 1.5983 | 1 | 11 | $11\frac{1}{2}$ | 3.7743 | 3 | 15 | $5\frac{3}{4}$ |
| 1720 | | 2.1866 | 2 | 3 | $7\frac{3}{4}$ | 1.4552 | 1 | 9 | 1 | 3.1823 | 3 | 3 | $7\frac{3}{4}$ |
| 1740 | | 1.9581 | 1 | 19 | $1\frac{3}{4}$ | 1.3249 | 1 | 6 | $5\frac{3}{4}$ | 2.5945 | 2 | 11 | $10\frac{1}{2}$ |
| 1760 | | 1.6432 | 1 | 12 | $10\frac{1}{4}$ | 1.2063 | 1 | 4 | $1\frac{1}{2}$ | 1.9823 | 1 | 19 | $7\frac{3}{4}$ |
| 1780 | | 1.3161 | 1 | 6 | $3\frac{3}{4}$ | 1.0983 | 1 | 1 | $11\frac{1}{2}$ | 1.4456 | 1 | 8 | $10\frac{3}{4}$ |
| 1800 | | 1.0000 | 1 | 0 | 0 | 1.0000 | 1 | 0 | 0 | 1.0000 | 1 | 0 | 0 |

If this explanation of the effects of the depreciation of money from 1780 to 1800, be correct, it is necessary for the public to consider how far they will encourage the further depredation of this principle upon the property of their creditors. Whether by promoting an increased publication of paper, they will conduce to the silent reduction of the debt, and an exoneration from the burthen by the further depression of money; or whether by endeavouring to prevent the increase, they will take every means in their power to maintain their faith with their creditors, and conform to the spirit of their contract. By Sir George Shuckburgh's table, the depression of money from 1780 to 1800, considerably exceeded the depression of the twenty preceding years; and by the facility, with which the paper currency of Europe is now augmented, the depression of the next twenty is likely to be still greater, unless some measures be taken to retard its progress. But should it only proceed in its present ratio, a quarter of the debt will be liquidated every twenty years, without any co-operation from the sinking fund; and should the ratio increase, the reduction will take place with accelerated rapidity.

However expeditious this mode may be of lessening our revenue and liquidating our debt, it cannot be contended, that the exoneration is achieved by the most honourable means. In the original agreement between the public and their creditors, it was stipulated that they should receive the same interest till the redemption of their debt; and as that interest is continued to be paid in

the same nominal sum, no actual breach of faith is committed, but the faith of government is virtually violated, as that sum no longer retains the same real value as at the commencement of the contract. So far, therefore, as our political conduct should be regulated by public principle, we are bound in equity to adopt every precautionary measure in our power to prevent the progress of the depression.

Much, however, as the public creditor has suffered, the crown has suffered in an equal degree. There is no subject that has been more frequently discussed, nor less satisfactorily explained, than the inadequacy of the revenue appropriated for the payment of the civil list. This inadequacy has wholly arisen from the incompetency of money to form a just instrument for the fulfilment of the conditions of permanent compacts. But as this principle has never been recognised by parliament in its full extent, nor properly elucidated to the public, it always appeared on appeal to parliament for the payment of arrears, that the King was exacting from his subjects an increase, instead of that his subjects had been perpetually exacting from him a decrease of his revenue, and was erroneously concluded that there had been a considerable augmentation, instead of a considerable retrenchment, of expense on the part of the crown.

It may indeed be said, in exculpation of those, whose duty it has been to submit the exceedings of the civil list to parliament, that the subject of the depreciation of money has hitherto been involved in much obscurity; that previously to the publication of Sir George Shuckburgh's

table, no author had attempted to ascertain its regular progression; and that, without an accurate knowledge of the gradation, no application of the principle could be made. The reasoning too of Dr. Adam Smith had, in a great measure, led to the inference, that no depression had lately occurred, and had in some degree diverted the attention of political writers from the subject. So little, indeed, was parliament familiarised with the principle, that the mere entertainment of it was almost forbidden; and in one of the debates, that took place on the arrears, it was expressly stated by Mr. Pitt, that he should forbear to touch upon the "abstruse learning"(*a*) of the depreciation of money, though it constituted in reality the sole cause of the application for relief, and was the sole plea, that could justify it. As this subject, therefore, was constantly debated under the supposition, that money formed an invariable measure for the same value, not only was it not believed that the crown had retrenched its expenses, and was impoverished by the loss of one half of its revenue; but it was conceived, notwithstanding the remarkable moderation of the character of the King, that he had increased his expenses beyond the expenses of former times; and that by the nominal extent of our grants, we were greatly superior instead of greatly inferior in liberality to our ancestors. But the following calculations will fully explain the fallacy of these conclusions, and demonstrate, that we now contribute no more than one half of the revenue, which was contributed in the reign of William the Third.

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(*a*) This singular expression only shews the little intimacy of Mr. Pitt's mind with the simplest deductions of the science of public economy.

In the spring of 1804, Sir George Shuckburgh favoured me with the result of his calculations on the depreciation of money from 1800 to 1803. The depression had advanced in the latter year, according to the proportions which he formed, to (*a*) 595. From 1803 to 1806, I will

(*a*) As Sir George Shuckburgh died in the summer of 1804, before he had completed an essay, which he was writing, on the subject of the depression of money, it is impossible for me to refer to a printed document in testimony of this assertion. It may be said too that the mere assumption of the same depression from 1803 to 1806, as from 1800 to 1803, is too loose for practical application. I certainly should not have made any attempt to give the depression to 1806, had not an addition of £ 60,000. a year been made to the civil list in 1804, and as it might have been conceived that this augmentation would bring the revenue to a correspondence with the charges, I thought it right to explain its effect. But the following calculation, which carries the revenue and the depreciation of money no lower than 1800, may perhaps be more satisfactory.

| A. D. | | | £. | £. |
|---|---|---|---|---|
| 1700 | 238 | 562 | 700,000 | 1,652,000 |
| 1710 | 247 | 562 | 700,000 | 1,592,000 |
| 1720 | 257 | 562 | 700,000 | 1,530,000 |
| 1727 | 267 | 562 | 800,000 | 1,683,000 |
| 1730 | 272 | 562 | 800,000 | 1,652,000 |
| 1740 | 287 | 562 | 800,000 | 1,566,000 |
| 1750 | 314 | 562 | 800,000 | 1,463,000 |
| 1760 | 342 | 562 | 800,000 | 1,314,000 |
| 1770 | 384 | 562 | 800,009 | 1,170,000 |
| 1777 | 414 | 562 | 900,000 | 1,221,000 |
| 1780 | 427 | 562 | 900,000 | 1,184,000 |
| 1790 | 496 | 562 | 900,000 | 1,019,000 |
| 1800 | 562 | 562 | 900,000 | 900,000 |

The first column of the table gives the value of money at the stated periods.

The second, the value of money in 1800.

The third, the actual amount of the revenue at the stated periods.

The fourth, the value of that revenue in the money of 1800.

assume that the same depression occurred as from 1800 to 1803, which will nearly bring the value of our present money to 630. But the value of money in 1700 was 238, and the revenue of King William £700,000. a year. The same proportion, therefore, which 238 bears to 630, £700,000. will bear to £1,852,000., and upon this principle the table is constructed.

| A.D. | (a) | (b) | (c) £. | (d) £. |
|---|---|---|---|---|
| 1700 | 238 | 630 | 700,000 | 1,852,000 |
| 1710 | 247 | 630 | 700,000 | 1,785,000 |
| 1720 | 257 | 630 | 700,000 | 1,715,000 |
| 1727 | 267 | 630 | 800,000 | 1,887,000 |
| 1730 | 272 | 630 | 800,000 | 1,852,000 |
| 1740 | 287 | 630 | 800,000 | 1,756,000 |
| 1750 | 314 | 630 | 800,000 | 1,605,000 |
| 1760 | 342 | 630 | 800,000 | 1,473,000 |
| 1770 | 384 | 630 | 800,000 | 1,312,000 |
| 1777 | 414 | 630 | 900,000 | 1,369,000 |
| 1780 | 427 | 630 | 900,000 | 1,327,000 |
| 1790 | 496 | 630 | 900,000 | 1,143,000 |
| 1800 | 562 | 630 | 900,000 | 1,008,000 |
| 1806 | 630 | 630 | 960,000 | 960,000 |

The subsequent statement will shew the extent to which the revenue should have been raised at the period

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(a) This column shews the value of money at the stated periods.
(b) The value of money in the year 1806.
(c) The actual amount of the revenue at the stated periods.
(d) The value of that revenue in the money of 1806.

to which each calculation refers, in order to have been maintained upon an equality with the £700,000. a year in 1700.

| A. D. | (a) | (b) £. | (c) | (d) £. |
|---|---|---|---|---|
| 1700 | 238 | 700,000 | 238 | 700,000 |
| 1710 | 238 | 700,000 | 247 | 726,000 |
| 1720 | 238 | 700,000 | 257 | 755,000 |
| 1727 | 238 | 700,000 | 267 | 784,000 |
| 1730 | 238 | 700,000 | 272 | 800,000 |
| 1740 | 238 | 700,000 | 287 | 843,000 |
| 1750 | 238 | 700,000 | 314 | 923,000 |
| 1760 | 238 | 700,000 | 342 | 1,005,000 |
| 1770 | 238 | 700,000 | 384 | 1,128,000 |
| 1777 | 238 | 700,000 | 414 | 1,217,000 |
| 1780 | 238 | 700,000 | 427 | 1,255,000 |
| 1790 | 238 | 700,000 | 496 | 1,458,000 |
| 1800 | 238 | 700,000 | 562 | 1,652,000 |
| 1806 | 238 | 700,000 | 630 | 1,852,000 |

By these calculations, therefore, it is obvious, that the present revenue of £960,000. a year, though nominally superior, is in reality only one half of the value of the £700,000. which King William possessd, and will conse-

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(a) The first column of the table gives the value of money in the year 1700.

(b) The second, the amount of the revenue in the year 1700.

(c) The third, the value of money at the periods to which each calculation refers.

(d) The fourth, the extent to which the revenue should have been augmented at the different periods, to have been equal to the £700,000. a year in 1700.

quently command no more than one half of the state and dignity, which were in his reign attached to the crown. They afford, therefore, the most satisfactory solution, that can be given of the difficulties that pervade every department of the royal household, as no allotted subdivision of the income is sufficient for the purpose, to which it is applied. Notwithstanding that retrenchment has been made upon retrenchment, and every expedient been adopted, that ingenuity could suggest, yet no economical arrangement, no practicable regulation, can bring the means to a correspondence with the end, and the whole establishment labours with the impoverishment that has necessarily ensued from the defalcation of so large a proportion of the funds, by which it was supported. This reduction of the revenue has consequently led to more frequent applications to parliament for relief during the present, than during any of the preceding reigns. From (*a*) 1700 to 1713, the exceedings of the civil list amounted to no more than £500,000. as the income during this period was more nearly competent to cover the expenses, to which it was appropriated. From 1713 to 1727, in consequence of the increased depression of money, the exceedings amounted to £1,000,000.; and as parliament found by experience that the £700,000. a year, which was granted to William the Third, was inadequate to meet the necessary charges, though no knowledge of the governing cause of its inefficiency were at that time diffused, they augmented the revenue on the accession of George the Second to

(*a*) See Mr. Rose's pamphlet on the civil list, from which the facts here stated are taken.

£800,000. a year; and by this addition exactly raised it to a parity of value with the £700,000. a year in 1700. From 1727 to 1760, the exceedings amounted to no more than £450,000.; but the cause that the excess, during the thirty-three years of the reign of George the Second, did not proceed to a greater extent was, that the duties, which were levied to provide the sum of £800,000. a year, constantly furnished a considerable surplus, that was competent to meet the depression as it occurred. But his present Majesty was unfortunately misled at the commencement of his reign, by the characteristic benevolence of his nature, to enter into a composition with parliament, and accept the fixed income of £800,000. a year in lieu of the duties, that were appropriated to raise it, and by this liberality involved his household in a constantly increasing series of difficulties, that have caused unremitting perplexity from the first moment of the compact. Had not this composition been made, the produce of the duties would have still provided an adequate fund for the counteraction of the depression, as from 1786 to 1800 it amounted, on the average, to £1,416,000. a year. But the contract was no sooner completed, than the deficiency was manifested, and in 1769 the sum of £513,000. was granted to liquidate arrears. In 1777, the further sum of £618,000. was voted, and the revenue was augmented by an additional £100,000. to £900,000. a year; but as it should have amounted in that year to £1,217,000. instead of £900,000, to have been equal to the £700,000. in 1700, the exceedings necessarily continued; and in 1783, 1784, 1786, and 1802, successive grants were made to the extent of £1,201,000. In 1804 the insignificant sum of £60,000.

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a year was added; but as I have already shewn that the revenue, with this addition, by the accelerated depreciation of money, is but little more than one half of the value of the £700,000. a year in the reign of William the Third, there cannot be the smallest doubt of its utter inadequacy to meet the charges, for which it is provided.

In order, therefore, that the civil list should be replaced on the footing, on which it stood, in the reign of William III., it is absolutely necessary that there should be a revision of the compact, which the crown entered into with parliament at the commencement of the present reign; and either that the duties, which were applied in the reign of George II. to raise a competent revenue, should be reappropriated to the same purpose; or that an income correspondent with their amount should be granted. But in thus recommending an efficient establishment to support the dignified relations between the Sovereign and his people, let it not be understood, that I wish for a provision, that should give to the crown a larger proportion of influence, than it now possesses. No one can be less desirous than I am, that the existing prerogative should receive any extension; nor can any one revere with more devotion the immortal name of Hampden, and the great, though not corrival, names of those, by whose successful efforts the constitution was eventually established: but it would be illiberal in the extreme, to permit the provision, which the very men, who formed our constitutional system, deemed it not inconsistent in the people to give, and the King to receive, to be reduced to half its original value, at a time, when

we are competent to give double; and it can scarcely be contended, that there would be danger in conferring now, what it was not conceived to be dangerous to bestow at the period of the revolution.

The same observations will nearly apply to the provision, which is made for the other branches of the Royal Family, as it consists of a fixed income, instead of being derived from a contingent produce, that would yield an increased revenue, commensurably with the increased depression of money. In 1742, £100,000. a year was granted to the Prince of Wales then existing, which, converted into the money of 1806, is £219,000. or double the income of the present Prince: and in 1746, the Duke of Cumberland then existing was in possession of a revenue of £70,000. a year, which, converted into the money of 1806, is £150,000., or eight times the income of the present Royal Dukes. If, therefore, the same establishment be to be maintained by the present Prince of Wales, as was maintained by his grandfather, and by the younger branches of the Royal Family, as has been the customary appendage of their distinguished station, the same relative funds must be given. Their existing revenue is wholly incompetent for the purpose.

But whatever conduct parliament may adopt for the more effectual support of the civil list, it would certainly be advisable to separate the revenues appropriated to the maintenance of the Royal Family from the other disbursements, and form them into a distinct head of public

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service, as an opinion s very generally prevalent, that the £960,000. a year is at the exclusive disposal of the crown. The following is an extract from Sir John Sinclair's account of the charges of the (*a*) civil list for 16 years, prior to the 5th of January, 1802.

*Civil List.*

| Class. | Annual Average of Expense. | | | Total in 16 years. | | |
|---|---|---|---|---|---|---|
| | £. | s. | d. | £. | s. | d. |
| Royal Family - - | 209,988 | 15 | 0 | 3,359,828 | 7 | 10¼ |
| Great Officers of State - | 33,279 | 10 | 0 | 532,472 | 0 | 1 |
| Foreign Ministers - - | 80,526 | 0 | 2½ | 1,288,416 | 3 | 4½ |
| Tradesmen's Bills - - | 174,697 | 13 | 11 | 2,795,163 | 2 | 3¾ |
| Menial Servants of the Household | 92,424 | 6 | 7½ | 1,478,789 | 5 | 8 |
| Pensions - - - | 114,817 | 6 | 11 | 1,837,077 | 10 | 6 |
| Salaries to various Officers - | 76,013 | 18 | 2¼ | 1,216,222 | 17 | 0¾ |
| Commissioners of the Treasury | 14,455 | 14 | 7½ | 231,191 | 13 | 10¾ |
| Occasional Payments - | 203,964 | 6 | 0¼ | 3,263,428 | 16 | 4 |
| Total - | 1,000,167 | 9 | 6 | 16,002,679 | 17 | 0 |

The annexed statement is an account of the aggegate revenue of the Royal Family from the civil list and consolidated fund, extracted from the same author.

*From the Civil List.*

| | |
|---|---|
| His Majesty's privy purse - - | £.60,000 |
| The Queen - - - - | 58,000 |
| The Prince of Wales - - | 60,000 |
| Princess Charlotte of Wales - - | 6,000 |
| Duchess Dowager of Cumberland - | 4,000 |
| | 188,000 |

(*a*) See Sir John Sinclair's History of the Revenue, vol. ii. p. 151.

*From the Consolidated Fund.*

| | |
|---|---|
| Prince of Wales - - - | £.65,000 |
| Duke of Gloucester (*a*) - - | 17,000 |
| Duke of York - - - | 14,000 |
| Duchess of York - - - - | 4,000 |
| Dukes of Clarence, Kent, Cumberland, Cambridge, and Sussex, £12,000. each, (*b*) | 60,000 |
| | 160,000 |
| Civil List - - | 188,000 |
| | 348,000 |

It would be improper, however, to conclude these observations on the inefficiency of the funds, that are applied to the payment of the civil list, without adverting to the inconsiderable emoluments of the great offices of state, which have continued, for the most part, without alteration from the reign of William III. In the inferior departments of government, a judicious augmentation has, in most instances, been made; and public men have little ground to complain, that their services in these stations are not duly compensated; but the income attached to the higher offices is not only incompetent to afford the remuneration, which a great nation should always make to her distinguished servants, but is insufficient to cover the expenses, which the stations themselves

(*a*) This refers to the late Duke.

(*b* Lately made £18,000. a year; but their revenue is still extremely inadequate for a princely establishment.

necessarily occasion. In the subordinate departments, ministers have, in some degree, been enabled to exercise a discretionary power, and regulate the income according to the advance of prices, but, as delicacy forbid an appeal to parliament for a proportionate augmentation of their own emoluments, they were reduced to the necessity of implicit acquiescence in whatever depreciation occurred. According to the best information, which I have been capable of obtaining, it is scarcely practicable for the first minister to expend less than from fourteen to fifteen thousand a year; yet there is no office, under government, to which a salary of half this sum is annexed; and though it be usual for the minister to hold two, and even three offices, yet no one has ever held places to a larger amount, than £10,000. a year. All those, therefore, whose private fortunes were inadequate to supply the deficiency, have been impoverished by their elevation to this high distinction; and instead of receiving a just compensation for their services, have been reduced to a state of indigent dependence on the kindness of their friends. The debts, contracted by Mr. Pitt, sufficiently authorise this reasoning, as it was scarcely possible for any one to possess a greater degree of moderation in every thing, that related personal expense; and yet the exceedings of his income amounted to £40,000. I am well aware, indeed, that the emolument of office is the last consideration, which those, who aspire to the government of the country, regard; and that the love of money has been a passion, almost without exception, an alien to their nature; but it is, on this very account, the more necessary, that the nation should indemnify them against the loss,

which must inevitably be sustained by the due support of the station, which they occupy.

In the inferior offices of the royal household, scarce a situation can be named of a competent salary. In the reign of William III. the lords of the bedchamber were entitled to £1000. a year, which converted into the money of 1806, is £2645., a sum, not only adequate to meet the additional charges, which the situation required, but fully sufficient to dignify the office, and enable the King to confer on his attendants an essential act of grace and favour; but, from the deductions, now exacted from places and pensions, the salary is little more than the odd £600.; and were it not that the office has, by long custom, been deputed honorary, would degrade, rather than elevate the noble persons, who accept it. Every other department of the royal household will justify similar observations; and so little does the income accord with the expense, that no part of the establishment is characterised by the splendour, which it formerly possessed, or is consistent with the munificence, which a great people should always display in providing for the state and dignity of the august head of its government.

In the pay of the army and navy, so far as the main body is concerned, a progressive advancement has been regularly made, commensurate with the depression of money, and the privates have no cause to impugn the liberality of their country. The pay of the officers has, for the most part, continued without alteration, from the reign of Queen Anne; but the regulations, that are

requisite to raise the army and navy to the highest state of appointment, have so fully engaged the attention of parliament, that it is unnecessary for me to advert to them. It is only material to observe, that the alterations, which are suggested, should have no tendency to change the character of the profession; and it is always to be recollected, in the words of a great and luminous historian, that "the modesty of the soldier in peace, and service in war, are best secured by an honourable poverty." (*a*)

In this review, therefore, of the effects of the depreciation of money on the various appropriations of the public revenue, it is evident, that money has hitherto formed an inefficient instrument for the fulfilment of the conditions of permanent compacts, to the great detriment of those, who have accepted a fixed income, in compensation for the advantages, which would have otherwise been conferred. It is only, however, in permanent compacts, that its inefficiency is so peculiarly detrimental. In contracts for years, an opportunity is afforded to the suffering party, on renewal of the term, to augment his income proportionally to the depression of money, though an injury be doubtless sustained during the currency of the contract, according to the extent, to which the depreciation has proceeded. The landed interest of the country, therefore, are certainly injured in proportion to the duration of the term, for which they grant their leases. From 1780 to 1800, as the value of money was depreciated 5*s*. in the pound, or 25 per cent., the landed

(*a*) Gibbon, page 221, Vol I. 8vo.

proprietor, who, in 1780, gave a lease of a farm for 20 years, at an annual rent of £400., received at the close of the term what was only equivalent to £300. at the commencement; but, as long leases are not, in this part of the United Kingdom, so frequently granted as formerly, the proprietors of land suffer less injury, than any class of the community, who receive a fixed income by the medium of money. The advantage, which is gianed by the tenant against the landlord, has no tendency to alter the value of the land, as it rises in price in the same proportion with its produce, and invariably maintains the same relative worth, whatever may be the depression of money. In taking, however, a comparative view of the situation of the landed interest at different periods, it is frequently observed, that a country gentleman cannot now live upon £1000. a year, as he formerly could, and an inference is thence deduced, that he cannot now maintain himself in the same eligible position in society. When a specific sum is mentioned, the remark is just; but the same landed property, that formerly produced £1000. a year, will now produce a proportionate sum to enable the proprietor to live with proportionate respectability. This opinion originated in the supposition, that money at all times expressed the same value, and that the same land invariably produced the same sum.

A comparative view has also been frequently taken of the advantages of landed and funded property, and a preference has, in many instances, though with very little reason, been given in favour of the funds; for as the public creditors are compelled to receive the same nominal

interest, whatever reduction may be made in the value of money, without any means of renewing their contract, and demanding an increase of income correspondent to the depreciation they must necessarily suffer in proportion as the depression is augmented. Nor is their principal (*a*) better protected than their interest, as it equally constitutes a fixed sum, and is equally subjected to the deterioration. But though the landed interest certainly suffer during the currency of their leases, yet at the expiration of their contracts they are again empowered to raise their rents commensurably with the alteration in the valueo f money, and re-establish themselves in the same relative situation. From 1780 to 1800, the public creditor lost one fourth of his principal and interest without any possibility of redemption; but what he lost the landed proprietor recovered, and by obtaining one fourth more in principal and interest, augmented his income in proportion to the depression, and regained the station, from which he had declined, while his lease was in force. The more distant too that the period is, from which the comparison is instituted, the greater will be the advantage in favour of the landed interest, as the greater will be the depreciation of money.

The private annuitants by bond, mortgage, settlement, or jointure, suffer in the same manner as the public annuitants of the state, as they have no power of renewing

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(*a*) The rise or fall of stocks is problematical, and cannot fairly be brought into the comparison, as they may be at any given moment as much against as in favour of the proprietor.

their contracts, and no means of redress, whatever alteration may ensue.

But however inefficient money may have hitherto been as an instrument of mediation in all pecuniary compacts, whether of a permanent or temporary nature, yet as it has uniformly constituted at the same time an equal measure for the same value, all those whose incomes are unconfined, and immediately derived from the sale of produce, sustain no injury by the depression, as from an equal advance in the price of all produce, all are augmented in the same ratio. The tenantry and peasantry of the country, therefore, together with the commercial, manufacturing, and trading classes, suffer no inconvenience, as their incomes are increased in the same proportion, in which the value of money is depressed. It may, on the contrary, more properly be said, that their condition is considerably improved by the depression; for as they are for the most part under contract to pay a stipulated sum for rent, or interest on money borrowed, they are enabled by the advance of prices to defraud their landlords and creditors of their just due, and fulfil their obligations with greater facility. As the debtors, indeed, in all contracts, must, of course, be benefitted in the same proportion, in which the creditors are injured, their advantage is easily appreciated.

But nothing can be more inequitable than to suffer the commission of this fraud by one half of the community on the other without any restrictive provision, and permit the public revenue, the property of the public creditor,

the income of the crown, and all the fixed incomes of individuals, to be constantly deteriorated by the prevalence of a system, that is productive of no one advantage to compensate the mischief, which it occasions. All the evils, that resulted under the Henrys and the Edwards, from the adulteration and debasement of the coin, now result from the fabrication of factitious money; and as parliament then made various attempts to counteract the effects of the degradation, it is surely important, that it should interpose its authority at the present period, when money is made much more than formerly the instrument of mediation in all compacts.

The only policy which it is necessary to pursue, is to prevent an increase of currency. If the relative amount of currency be not augmented, it is impossible that money can be depreciated. The means, by which this policy is to be carried into effect, will be the subject of the following chapter.

But as all legislative provisions are necessarily imperfect, it is essential, before I close these observations, to remark, that in compositions of a permanent nature, some criterion should be assumed for the purpose of providing a graduated scale of the value of money, and that an increase or diminution of income should be allowed in conformity to the result. The present impoverishment of the crown is a sufficient warning against permanent compacts for a definite sum; and no public composition will, I trust, be hereafter concluded, that does not contain within itself the power of revision as to the pecuniary

compensation. In a late projected composition government very properly departed from the principle of a fixed income, and as a (*a*) commutation for tithes, it was proposed to grant a stipendiary salary, according to the price of corn. The basis upon which the compensation was to be negotiated was perfectly just; but I have already shewn the inefficiency of corn as an exclusive standard; and whenever it may be necessary for any object of extended policy to ascertain the relative value of money for a period of long duration, the principles, upon which Sir George Shuckburgh constructed his table of proportions, will be found the least objectionable.

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(*a*) Mr. Pitt had obtained the sanction of those most interested in the measure; and so far was it approved, that a bill was even prepared with the view of submitting it to the consideration of parliament.

# CHAPTER XIII.

*On the Reformation of the Paper Currency of Europe.*

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As the reasoning of the foregoing chapter evidently shewed, that it was of the highest importance, that money should be made to constitute at different times, as well as at the same time, an uniform measure of value; and as the reasoning of the chapter preceding the last went to prove, that the variation principally arose in the existing circulation of Europe, from the utterance of paper; it necessarily follows, that a due regulation of the paper system would be the most effectual means of obviating the inequality, and causing the same sum, as nearly as possible, to be permanently expressive of the same value. I certainly, indeed, endeavoured to explain, that other, and distinct causes of the alteration of the measure, had subsisted in distinct periods of our history; that in the ruder ages of society, it had principally resulted from the adulteration and debasement of the coin; and from the birth of Columbus to the close of the 17th century, from the proceeds of the American mines: but as the adulteration of the coin is now universally condemned, as a futile and impolitic expedient, and as the annual returns from the mines of America would, in a great degree, be absorbed by the annual consumption of bullion; by occupying the place of the inferior paper, which a

prudential reform would withdraw from circulation; and by supplying the additional proportion of coin, which would in most countries be necessary to meet the gradual augmentation of produce, and maintain prices at their existing standard; it is evident, that if no increase were made to the present stock of paper, no material depreciation of money, nor consequent alteration of the measure, could occur.

For an efficient counteraction of the depression, therefore, a revision should take place of the whole circulation of Europe; and the utterance of paper should, in all countries, be forbidden beyond the existing amount, as any addition, however insignificant, would cause a correspondent reduction in the value of money. But under the present constitution of the banking establishments, no check to the issue of paper is in operation, except the obstruction, which arises from an unfavourable exchange upon a partial excess; and as this check is removed, if the paper of all countries be augmented in a similar ratio, some reform should be proposed, that would subject them to the regulations, which the common interests of the republic of Europe require. The limitation by exchange has been duly enforced from the first introduction of a paper medium; and whatever influence it may have had to obviate a particular excess in any given country, it has had no influence to prevent the general amount from proceeding to a pernicious extreme. The present quantity of paper exceeds, in an unprecedented degree, the quantity that was in issue fifty years ago; and if the same unrestricted utterance be permitted for

the next fifty years, as has been permitted during the last, there can be no doubt but that the powerful incentive, by which the banking companies are actuated to push their paper to the greatest possible extent, will augment the amount as much above the present proportion, as the present proportion is superior to the amount in circulation half a century since; and no check whatever will be opposed to the depression of money. In order, therefore, to erect a more effectual barrier against the extension of paper, it is necessary not only to deprive a certain proportion of the banks of the privilege of uttering paper, but to restrict those, invested with the power, from publishing any note below a given value.

But this regulation, though powerfully restrictive, would still be incomplete, unless the amount of the paper of the privileged banks were from time to time disclosed to the public; for though the prohibition of small notes would greatly tend to obstruct the augmentation, yet, as no auxiliary check would be brought into co-operation, but the state of the exchange, which is inefficient as a general control, the circulation of Europe might still be extended beyond its proper limits, and still continue, though by slower steps, the depreciation of money. For a complete prevention of the depression, therefore, it is necessary, in addition to the limitation of the privilege of utterance, and the limitation of the value of the paper, that the banks should communicate to the public, at stated periods, the amount of their notes. By this disclosure, their paper would be exposed to the eye of government, and subjected to the animadversions of

public men: and should an undue augmentation, at any future period, be found to have taken place, such further restrictions might be proposed, as would be fully adequate to correct the excess, and maintain a durable uniformity in the measure of value. But as it is impossible, from the nature of their institution, that this communication could be made by private banks, it is essential to the effectuation of a competent reform, that none but chartered companies should be allowed the privilege of issue.

It is not, however, for the sole object of counteracting the depression of money, important as such a consideration may be deemed, that I recommend the privilege of issue to be withdrawn from private banks; but I have also in view, the correction of the abuses, that result from the interposition of their paper: and, exclusively of the reform, which it is necessary to make, for the purpose of supporting an uniform measure of value for a period of long duration, I should be led to deprecate the publication of their notes, as a peculiar defect in the circirculating system of the country, where they were authorised.

One of the leading objections to the encouragement of private paper, is, that it is principally composed of small notes, which, invariably, occasion the banishment of specie: for if they be published in provincial districts, the coin is collected by the banks, and dismissed to the metropolis for investment in securities; or, if published in the metropolis, is collected by the bullion merchant, and remitted to other countries, upon an unfavourable exchange.

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Immediately that a private bank is established in any particular town, and advances its paper to the principal manufacturers resident in the neighbourhood, it easily commands the circulation of the district; for, as most of the money requisite for the transaction of exchanges, passes through their hands, it is no sooner received, than conveyed to the bank, for the promotion of their credit. Whatever quantity of coin, or of the paper of the metropolitan banks, is thus obtained, is transmitted to the metropolis, and laid out in securities, most easily susceptible of reconversion, a small reservation only being made to answer occasional demands; and as the profits of the bank, almost wholly, depend on the amount of its circulable paper, and the sum of specie so invested, every effort is made, by the aid of connections, to maintain as large a proportion as possible of outstanding notes, and to displace as large a proportion as possible of the coin that antecedently circulated. So long, therefore, as the interposition of private paper shall be authorised by law, nothing but a run upon the Bank, and a compulsory demand for specie, can cause the return of a circulating system of coin in the district, where it is established.

But sudden as the disappearance of the coin may be in provincial districts, where the publication of small notes is permitted, it is still more immediate in the metropolis, where the negociations of the exchange are transacted, and where the collection of specie is effected with greater facility. As all the important payments of a nation are made in the metropolis, and as paper of a superior denomination has consequently, at all times, furnished a

competent profit to the metropolitan banks, no small notes have been issued, but from the mistaken policy of finding a substitute for specie, already in a state of scarcity, from an excessive utterance of paper. The further accumulation, therefore, of the quantity, by an edition of small notes, has uniformly aggravated, instead of mitigated the evil, and caused an immediate departure of the remaining proportion.

Exclusively, therefore, of the policy of assigning a limit to the publication of paper, for the purpose of counteracting the depression of money, and enabling it to form a more durable measure for the same value, the privilege of issue should be withdrawn from private banks, were no other beneficial object to result from it, than the abolition of small notes, and the readmission of coin in the currency of Europe.

But the utterance of private paper is liable to many other objections, and the history of every country, where it has been authorised, will fully manifest the mischievous tendency of its intervention. But, as an explanation of the consequences, which have resulted in one state, will in a great degree illustrate the consequences in all, and as it is more immediately to my purpose, to consider its effect on our own system, I shall more particularly confine my observations to the irregularities, which it has caused in the currency of this country.

I have already had repeated occasion to notice the defective construction of our circulating system in the

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reign of William III., from the publication of the notes of goldsmiths in conjunction with the paper of the Bank of England. The confusion, which ensued from this admixture, continued in part, till the frequent bankruptcies of the goldsmiths gradually led to the contraction, and eventually to the explosion of their paper. From the period of this explosion to the close of the American war, the Bank of England possessed an exclusive monopoly, and by forbearing to issue any note below the value of ten pounds, uniformly sustained, in every part of the kingdom, a sufficient quantity of specie for the fulfilment of inferior contracts, and the common purposes of domestic intercourse. But in the interval, that elapsed between the American and the Revolutionary war, provincial banks attempted in the country, what the goldsmiths of the metropolis had previously attempted, and caused the same relative scarcity of specie in the districts, where they were instituted, as the notes of the goldsmiths had occasioned in the reign of William III. But the consequences, which flowed from their establishment, were equally prejudicial to themselves and the public: for, though during the period of peace no suspicion were excited of the credit of their paper, yet at the commencement of the war in 1793, a general distrust prevailed, and the country was disgraced by their failures, in the same manner as it had before been by the failures of the goldsmiths. Nor was the calamity confined to their own institutions, as the contraction, which the run enforced of their paper, caused so great a deficiency of the means of payment, that, though the bankruptcies of the two preceding years had amounted to no more than 600, the bankruptcies of

this year extended to the unprecedented proportion of 1304.



In this crisis the provincial companies applied to the Bank of England for relief, but the directors were too apprehensive of the difficulties, that awaited their own establishment, to comply with their requisition. The metropolis soon became distressed in the same proportion with the country towns, from the diversion of its currency to fill the chasm which had been made, in the circulation of the other parts of the kingdom: and the mischief, already aggravated beyond all former example, would have proceeded to a greater extent, had not government interposed to arrest its progress, and by a provident issue of Exchequer bills, prevented any further embarrassment.

In the general shock, though many of the country banks found means to avert the calamity, which threatned them, yet none were free from alarm; none coul tell how soon the blow might be repeated, nor what degree of injury it might be capable of effecting. So soon, therefore, as the public consternation had subsided, they took the only means in their power of providing against the probable effects of another alarm, by forming a connection with the London bankers. By this co-operation, they were enabled to secure the support of the Bank of England, notwithstanding its indisposition to assist them; for, though previously to the suspension of cash payments no London banker applied for aid, in his own name, as the application would have been deemed a reflection on his

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credit, yet assistance was easily procured by the intervention of his customers, who subscribed their names to the bills, which he presented for discount. By this intermediate agency the provincial companies were placed under the protection of the Bank of England, and that support was indirectly contributed, which their open application had failed to obtain.

In 1797, a suspicion was again excited of the credit of their paper, but the connection, which they had established with the London bankers, in reality directed the draft from themselves to the Bank of England. Immediately that a run was made upon them, a drain was opened on the Bank of England for specie, through their London agents; and the evidence before the secret committees goes to shew, that considerable sums were remitted for their support. But the communication, which took place between Mr. Pitt and the Directors, in 1794, 1795, and 1796, decisively proves, that the coffers of the Bank had been too far exhausted, by the long continuance of an unfavourable exchange, to be capable of furnishing a fund of material import. Nor could all the deposits of the kingdom supply the requisite amount for the public exigency. The specie of the provinces had already been supplanted by the small notes of the country banks, and dismissed to the metropolis; and the specie of the metropolis had been gradually reduced to the lowest possible amount by the adverse condition of the exchange. The few guineas, therefore, that were left, were applied to effectuate the inferior payments of the city of London, and were wholly inadequate to occupy the place of

provincial paper, and enable the country to recover her position, and reassume at once the circulation of coin. As no practicability, therefore, existed, of providing a competent sum, to meet the demand; and as the greater the difficulty, which the country banks experienced, the greater was the draft on the bank of England, no alternative remained, but a suspension of cash payments; and an order of council was accordingly issued, on the 26th of February, 1797, to restrict the directors from paying in specie.

On a retrospective view, therefore, of the circulating system of this country, it appears, that, in the present reign, as well as in the reign of William III., the admixture of private paper, with the paper of the Bank of England, produced precisely the same consequences, the adulteration, melting, and scarcity of the coin, the failures of the banks that uttered the paper, and the suspension of payments in specie by the bank of England: and were an inquiry to be made into the effects, which the paper of private banks has occasioned in other countries, in Scotland, Ireland, Italy, and Denmark, where its relative quantity has been carried to a greater extent, little doubt would be entertained of the impolicy of upholding it, as a component part of the permanent currency of a country. Without any reference, therefore, to the objects in contemplation, of retarding the depression of money, and restoring a system of coin, it is highly essential, that private paper should be prohibited, from its easy susceptibility of discredit, as an inefficient and dangerous medium.

CHAPTER XIII.

But in reasoning on the order of council, though it be necessary to admit, that it was strictly authorised by the existing pressure on the Bank, yet no instance can be adduced, more fully illustrative of the little acquaintance of Mr. Pitt's mind with the principles of public economy, than his inability to overcome the difficulties, that occasioned it. In the chapter on the payment of our foreign expenditure, it was essential to the explanation of my subject to notice the mistaken opinion, which he formed, of the cause of the efflux, and influx, of money, and the error, which he committed, in narrowing the supplies to the court of Vienna, from an illusive conception of the want of money to pay them. The same principles, which misguided him in his subsidiary negociations with foreign powers, misguided him in his policy to the Bank of England, and in the general view, which he took of the circulation of paper.

Upon the successful establishment of provincial banks, in every part of the kingdom, he was apprised, by the returns of the Receivers General, of the tendency of their paper to displace the coin; yet he suffered guinea after guinea to be transmitted to the metropolis, and every county, in its turn, to be exhausted of its specie, without any attempt to check the innovation, or any inquiry into the consequences, that might result from it, though it be impossible to conceive, that he could have reasoned on the subject, and not have foreseen the difficulty of resupplying the provinces, and reverting to a currency of coin, without a dangerous convulsion of the system. Not only, however, was he regardless of the exhaustion of the counties,

but, as the specie, by degrees, was attracted to the metropolis, he resorted to the only policy, that was calculated to enforce its departure to the continent, by incessant application to the Bank of England for additional grants, notwithstanding that the Directors had complained, so early as the year 1794, of the impoverished state of their coffers, and had strongly solicited the repayment of their advances, for the express purpose of contracting their outstanding paper, and obviating the drain. But he was fully persuaded, that the current to the continent was occasioned by the extent of our foreign expenditure; and he fondly trusted, that a favourable balance of trade, which he conceived to be a necessary consequence of the commercial relations of this country, would, upon the reduction of our external payments, immediately lead to a return of the specie. Of the theory of money, as an uniform measure of value, and of its property, to flow into, or out of a country, as a relative scarcity, or excess of circulation might direct, his mind had never entertained a conception. Upon the communication, therefore, which the Bank of England made to him, of the deficiency of their cash balances, he was at a total loss to provide the necessary aid; for as the public service would not admit any material diminution in our foreign expenses, and as the augmentation of a favourable balance of trade was not within the government of political provisions, he knew no resource, by which an adequate supply of specie could be procured. As the counties, therefore, were wholly exhausted, as the metropolis possessed no more than the sum that was necessary for its inferior transactions, and as the deposits

of the bank were reduced to the lowest scale, no funds whatever remained, upon the failure of provincial paper, to replenish the counties with the coin, which they had lost; and the order of council was imperatively demanded, to prevent the stoppage, that would otherwise have ensued.

Nor did he evince any better judgment after the restriction than before it. Upon the enactment of the suspension, it was the declared intention of government, that the Bank should resume its cash payments after a short intermission; but though the contraction of our currency, in consequence of the sudden disappearance of provincial paper, conduced to a large supply of specie from the Continent, which might have satisfactorily illustrated to his mind the real cause of the pre-existing scarcity; yet so far was he from taking advantage of the influx, and the demonstration which it afforded of the origin of the mischief, by a judicious prohibition of paper of an inferior denomination, that he particularly exulted in parliament, that the restriction had furnished to the Bank of England additional facilities of discount, by the authority which it gave to the publication of small notes. By this policy, of encouraging, instead of obstructing, the augmentation of paper, he not only again reduced the exchange to an unfavourable position, and caused the departure of all the specie, that had been introduced sub equently to the suspension, but he enforced the export of that proportion, which had previously escaped, in consequence of the forbearance of the Bank of England to issue an inferior paper; and in 1799, and

1800, a less quantity of coin was extant in the country, than in 1795, and 1796. The difficulty, therefore, of resuming the payment of gold was aggravated, instead of diminished, and the return to a system of coin was deferred to an indefinite period.

The general view, however, which Mr. Pitt took, of the circulation of paper, was wholly erroneous. At the time when the government of France was continually adding to the discount on its paper by the continual increase of assignats, he was regularly predicting the ruin of the country; and in every debate, which occurred on the conduct of the war, he not only proclaimed, that she was in the gulph of bankruptcy, but was fully convinced, so soon as her paper system should fail, that her government would be bereft of every resource, and that a total dissolution of the empire would immediately succeed. He was well aware, from the information which he received, that not a louis could be seen in circulation; and as he was of opinion, that the efflux of her gold had been occasioned by her foreign expenses, he conceived, upon the failure of her paper, that no means whatever would remain to enable her to fulfil her engagements, and maintain her faith with the army. He therefore regarded the ruin of her credit, as the signal of her defeat; and he confidently looked to this event as the consummation of all his hopes. But to his surprise, and the surprise of the world, the paper no sooner disappeared, than, instead of a want of money, the whole country was glutted with specie, from every quarter of Europe, and a complete renovation of her circulating

system was effected. Yet this illustration, remarkable as it was, imparted no instruction. So wholly was he absorbed in the errors of the old school, that no elucidation could wean him from the doctrine, or impress him with a just perception of the real cause of the reflux of the coin. But whatever difficulty the prepossessions of his mind might have opposed to a theoretical solution of the mystery, it is singular, that in so complete a discomfiture of his views, he should have forborn to have drawn the practical conclusion, that the compression of paper necessarily occasioned the introduction of specie. Not only, however, did he fail to form a correct inference, but he was unfortunate enough to bring upon his own country by the same policy of an excessive utterance of paper the same scarcity of specie, which had led him to predict the speedy subversion of the power of France.

The government of Austria was equally misguided, on the subject of a paper currency, with the government of this country. During the progress of the revolutionary war, and after the total failure of the credit of France, the court of Vienna was induced to make an extraordinary publication of paper, under an impression, that it would prevent the necessity of further exactions from the people. The expedient was attended with its usual concomitant, the departure of the coin ; and by the same misconception of the theory of money, as in all other countries, the scarcity was attributed to every thing, but the over-utterance of paper. An unfavourable balance of trade was, however, conceived to be the principal cause ; for as the war had been for the most part

prosecuted in the dominions of the house of Austria, its government possessed not the same plausibility of reasoning with the government of this country to impute it to the payment of a foreign expenditure. To check the imaginary drain, therefore, of an adverse balance, a proclamation was issued, in compliance with the immediate dictates of the mercantile system, to prohibit the importation of sugar; and it was confidently expected, that specie would be returned for the whole of the export trade, that was customarily applied to its purchase. But as all commerce consists in the equal interchange of produce for produce, a reduction of the imports necessarily enforces a reduction of the exports; and the measure was in reality calculated to lessen the aggregate trade, without any tendency to leave a surplus of exports for the introduction of bullion. The prohibition, therefore, had no beneficial operation towards a reduction of the scarcity; and as the same excess of paper continued in circulation till the commencement of the campaign of 1805, the same deficiency of coin continued to subsist. The over-utterance of paper, however, would have done but little injury, had it simply led to a partial infringement of the freedom of trade; but the great mischief of its excessive publication, consisted in the impression, which it spread, both in Austria, and in this country, of a total exhaustion of resources, from the common prejudice, which mankind entertain, that money and wealth are the same thing, and that a want of the one necessarily implies a want of the other. The force of this prejudice was never more unfortunately exemplified, than in the manifesto, published by the court of Vienna, after the treaty of Presburg, where an attempt was made

to justify the peace, because no specie was remaining in the country, and because the paper of government was reduced to a discount.

But whatever were the errors of Mr. Pitt and of the ministers of other courts, in the judgment, which they formed, of the resources entrusted to their direction, no minister ever possessed a more intimate knowledge of the theory of finance than the great statesman who lately conducted the councils of this country. In whatever estimation Mr. Pitt will be held for his general policy, however exalted his merit, and powerful his claims, it is impossible to admit, if the preceding observations of this inquiry be well founded, that he either correctly understood the genuine wealth of a nation, or correctly administered the vast means of his own country. In the contraction of his subsidiary grants to the court of Vienna; in his illusive prediction of the ruin of France; in his admission of the theory of the balance of trade; in the commercial regulations, which he adopted in consequence of it; in the drain, which he supposed a foreign expenditure, and the import of corn to occasion, of specie; and in his conduct to the Bank, on the diminution of its deposits by the encouragement, instead of the compression of paper, it is necessary, according to the principles of this work, to conclude, that he was wholly misguided. Elevated by the intuitive force of his intellect above the prejudices, by which his illustrious relative was misled to the commission of these errors, and aided in his efforts by a more zealous and elaborate research, Lord Grenville has attained to clearer views and more enlarged conceptions. He is the first statesman

that acceded to the government of this country, uninfluenced by the tenets of the old school. In his mind the theory of the balance of trade, and the various fallacies, that lead to, and flow from the doctrine, have no place. Nor is he impressed with the opinion, that the efflux of our coin is attributable, either to our external expenses, or the purchase of grain. He first deduced the important inference, that it proceeded from the excessive utterance of paper; and in a speech, which he delivered in the House of Lords, after the peace of Amiens, on the second reading of the bill for restricting the Bank of Ireland from payments in specie, he not only detailed the cause of the efflux, but proposed the only plan, that was calculated to give effect to a mint coinage, and enable the Bank to pay in gold. The deep and extensive knowledge, which he displayed of the principles of public economy in this, and every other debate, that related to the subject, was a sufficient promise to the world, that the resources committed to his charge would be more ably administered than by his great, though less competent, predecessor; nor can any fact more fully confirm the promise, than the comprehensive and triumphant system of finance, which he submitted to parliament, for providing for the expenses of the war to an indefinite period, without any accumulation of the public burthen.

(*a*) The plan, which he recommended for the reform of our paper currency, was, that the Bank of England, and

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(*a*) The pressure of matter during the last session of parliament prevented the execution of this plan.

the provincial banks, should, at the expiration of three months from a given period, call in their one pound notes, at the expiration of three months more their two pound notes, and at the expiration of three months more their five pound notes; no note being eventually left in circulation below the value of ten pounds.

By this policy, and this policy only, is it possible to check the depreciation of money, and re-establish a circulating system of coin.

As the existing regulations of the currency of Europe authorise the publication of small notes to any amount, and permit their substitution for specie, in all the dealings of retail trade, it has already been shewn, that prices may be raised to any extent, and that no check whatever can be opposed to the depression of money. But if the banks were under the necessity of leaving a certain proportion of coin for the transaction of inferior payments, it is impossible, that paper could be published to such an extent as to elevate prices above the standard, which the amount of the specie was adequate to support. The quantity of paper of a higher denomination must, in a great degree, be regulated by the quantity of the inferior means of payment; and if the inferior means be incapable of enlargement, a limit is necessarily assigned to the enlargement of the superior. Specie may certainly be excluded from all intervention in contracts of an important nature, and confined solely to the interchanges of retail trade; but if there be no funds, from which it can be augmented, it will be impracticable to raise prices by the issue of

paper, beyond what the specie so occupied can maintain. Any attempt to advance them to a higher state, by the further augmentation of paper, would cause an immediate return of the notes upon the banks, that uttered them, if convertible at option into specie; or would reduce them to a discount commensurate with the excess, if inconvertible. The prohibition of small notes is, therefore, indispensibly necessary to arrest the progress of the depression.

Nor while inferior paper is permitted, will it be possible to revert to the circulation of coin, since not only will it be impracticable to introduce any considerable quantity of specie, by the operation of the natural cause of its influx, a relative deficiency of currency; but it will be impracticable to retain it, if introduced by the irregular means of purchase above its mint value or capture. It has already been shewn, that the Bank of England, from its first institution to the present time, has uniformly maintained in circulation as large a proportion of paper, as the position of the exchange would allow. During the period, that it published no note below the value of ten pounds, it was necessarily circumscribed in its power of utterance to a greater degree than it now is, as it was compelled to leave a sufficient sum of specie for the inferior payments of the metropolis. But, since the restriction has authorized the issue of small notes, and suffered them to supply the place of guineas, advantage is taken of the privilege to extend the amount of the paper the whole value of the specie, that was previously current, and no opening is left for the readmission of coin. If,

therefore, by capture or purchase, any considerable quantity were imported, the accession would have no other effect, than to aggravate the pre-existing excess of the currency, and by depressing the exchange to a lower standard, cause an immediate departure of the money to other countries. Without the suppression, therefore, of the small notes of the Bank of England, no coin can be maintained in the metropolis; and without the suppression of the small notes of provincial banks, no coin can be maintained in the country; for as the re-establishment of a mint coinage would deprive the banks of the profits, which they now derive from the free circulation of their paper, they would accumulate in their coffers and return to London the specie which was remitted, and defeat every effort that government could make to enforce its continuance.

In a speculative point of view, I should certainly have preferred the reform that would have totally withdrawn the privilege of issue from private banks, to the reform that only limits the privilege; but as private paper is principally composed of small notes, a proscription of the one paper will, in a great degree, comprise a proscription of the other. Various considerations may operate, in this country, with the practical statesman, to prevent the introduction of so extended a reform, in the first instance, as an entire abrogation of the privilege. The chief object, in all questions of this nature, is to ascertain the real cause of the evil: that being once discovered, statesmen may apply, as circumstances appear to dictate, the expedient to palliate, or the remedy to

remove it; and should the prohibition of all paper below the value of ten pounds be found, at a future period, inadequate to realise the advantages, which are expected to result from it, such further limitations may be proposed, as would render the reformation more complete. With some few, however, it is probable, that an exception may be taken to the measure, not because it is not extended in a sufficient degree to correct the irregularities, for which it is designed, but because it is calculated to give a monopoly to the Bank of England; because it is carried too far, instead of not being carried far enough. No one can be, in the abstract, less friendly than I am, to laws of monopoly, as they, invariably, lead to a limited supply, and high price, of the commodity, which is the subject of them; but a limited supply, and high price of paper, are the precise points, which it is necessary to obtain, as, contrary to the nature of produce, its redundance, not scarcity, is the evil to be redressed. Its monopoly, therefore, is wholly distinct from the monopoly of the necessaries, or comforts of life, as its contraction, not augmentation, is the peculiar object of attention.

But it may, perhaps, be conceived, that if the inferior paper were withdrawn, no specie would flow into the country, to occupy the chasm. Reason, and experience, however, concur, in shewing, that this conception is wholly groundless. If the theory be true, that money is made to act in due conformity to the purport of its institution as an uniform measure, and that no one country can, permanently, possess a greater or less currency than its just proportion; it necessarily follows, that

if our currency be so contracted, as to cause the same sum to measure in this country a greater value, than it measures in others, the specie of the Continent will be imported to reduce its value to a common level. And that this theory is correct, is not only attested by the conduct of the Bank Directors, who have uniformly been compelled to resort to the policy of compressing their notes, for the purpose of counteracting a drain for specie, but is more openly proved by the favourable exchanges of 1793, and 1797, when a general consternation avowedly produced a sudden contraction of the paper: though its truth may indeed be fully manifested, by the history of every country, where the circulation of paper has been authorised, as in each instance, where the paper has been augmented to a certain extent, specie has disappeared; and in each instance, where it has been suppressed, the specie has returned; and as no satisfactory explanation can be given, of this regular, and invariable effect, but the necessity, to which all countries are subjected, of maintaining the same relative proportion of currency, in order that money may be enabled to discharge its functions with due consistency, as an uniform measure, no doubt can be entertained of the validity of the policy which Lord Grenville has recommended.

Not only indeed upon the contraction of our paper, would it require no effort of government to cause the influx of specie, but no effort of government could prevent the influx. If the same sum were made to measure in this country a greater value than it measured in others, no regulation of government could maintain, in our

exchange, the bills that were drawn on foreign nations at par, as the superiority of the prices of the Continent would expose the buyers to an inevitable loss, from the produce, on which they were expended, being unable to return in our market the same value, which it cost abroad. They would, necessarily, therefore, fall to a discount, commensurate with the difference in the value of money; and should this difference, by the compression of our paper, be sufficiently great to reduce them to a depression beyond the charge of the transit of money, no legislative provision could prevent our goldsmiths from purchasing, and investing them in the specie of the Continent, for the purpose of introducing it into this country, when a profit would be attainable on its import, by the whole amount of the excess. The intervention of government would, therefore, be as unavailing to obstruct the influx of money, when it was the interest of individuals to import it, as it has uniformly been to obstruct the efflux, when an advantage was to be gained by its departure.

Nor would the contraction, thus gradually carried into effect, occasion any embarrassment to the commercial world; as the specie, which would be returned in consequence of it, would, in a great degree, supply the place of the paper that was withdrawn. The Bank of Englan have frequently lessened the amount of their notes, to introduce a supply of bullion, without any inconvenience to the public, from the dimunition of the means of payment: and as the compression, which would be necessary for the effectuation of the reform, would not exceed in

extent, however it might exceed in duration, the compression that was customarily adopted by the Bank to attract the bullion of the Continent, it would be totally inconsistent with reason to conclude, that any injurious issue to the credit of the country would result from it.

Some objections may, however, be made to the time of the reform; and it may be thought, by the public, to be more advisable to adjourn it to a period of general peace. A state of hostility is frequently adduced, as an apology for the postponement of many measures, to which it bears no relation; and I have already explained, in the chapter on the payment of our foreign expenditure, that money may be made to flow into a country in any quantity, notwithstanding an external expense to any amount. The war, therefore, opposes no necessary obstacle to the reform, as it has no connection with the cause that directs the influx and efflux of money. An opinion was certainly very generally entertained, at the enactment of the restriction, that the departure of our coin was exclusively attributable to the war, and the scarcity. But peace and plenty have since returned, without the return of our specie: and though Lord Liverpool, "the child and the champion" of the old school, may affirm, that the theory of the balance of trade is self-evident; and Mr. Rose may shew, by official documents, that the amount of the balance is £14,800,000. a year, yet, in bringing the affirmation of the one, and the calculation of the other, to the test of experience, it appears, that instead of the hundred and fifty millions of specie, which the ten years, that have elapsed, since the

order of council should have added to our currency, the quantity of coin, now extant, is considerably less than the sum in circulation at the period of the suspension.

But whatever authority there may be for concluding, that the plan, which Lord Grenville has proposed, for the reformation of our currency, is grounded on the real principles of public economy, yet he forbore to rely on speculative reasoning only, for the proof of its efficacy. In the view which he took, of our circulating system, he perceived that, at the time, when the Bank of England uttered no note below the value of ten pounds, and no private paper was issued, no complaints were made of the scarcity of specie; nor did a murmur escape, that our currency was inadequate to the scale of our transactions. For the correction, therefore, of the irregularities of the present system, nothing more was necessary, than to restore our currency to the state, in which it was maintained for the greater part of the preceding century, without any dependence on abstract principles, any regard to an untried philosophy, or any exposure to the danger and uncertainty of new experiments: and however satisfactory it may be, that the plan, which experience dictates, is also approved by the deductions of theory, yet a practical statesman, and no one was ever more so than Lord Grenville, will always prefer, where an election is offered, the broad basis of precedent and fact, for the foundation of his policy.

Should then this reform be effected, and the Bank be again invested with the exclusive, or nearly the exclusive,

privilege of utterance, it is highly important, for the purpose of preventing the frequent recurrence of a temporary excess of issue, and the consequent burthen on the public by the renovation of the molten coin, that the charge of coinage should be paid by the Company, and that the duties now levied to defray it should be appropriated to some other head of public service. I have already explained, in the fourth chapter of this inquiry, that the superiority of the market price of our money above its mint price, originated in the over-issue of paper; and as the over-issue, upon the completion of the reform, will be attributable to the Bank, it would be utterly inconsistent with every principle of law and equity, if the Company were not made responsible for the injury which they commit: and as they will have the power, by narrowing the circulation, of reducing the market price of money below the mint price, they will have the means of acquiring a profit by the stipulation, instead of incurring a loss. It is also essential, that they should be made to communicate to the public, at stated periods, the amount of their notes, not only as a check on the general augmentation of paper, but, should the check be inefficient, and the depreciation of money proceed with any rapidity, approximating the present ratio, as a ground for the formation of a more restrictive system, to counteract its progress.

Having thus explained the principle of the reform, which it is necessary to adopt in this country, it merely remains to apply the principle to the currency of other countries. If the preceding argument be well founded,

it is obvious, that none but chartered companies should be allowed the privilege of issue, and that no note should be published below a given value. The higher the point, at which the limitation of value is fixed, the greater will be the quantity of specie in circulation; and I should, in most instances, be inclined to prefer the standard of £15. rather than £10., for the purpose of leaving a larger space for the occupation of coin, than has been customarily left in this country. The utmost care should also be taken, to prevent, as much as possible, the extension of paper beyond the present amount, as any increase will infallibly occasion a correspondent depression of money: and as the mines of America are competent to produce whatever proportion of specie the increasing prosperity of thriving nations may require, for the maintenance of existing prices, little danger need be apprehended of an insufficiency of supply for the just purposes of circulation. By a due regard to this policy, the various evils that result from the depreciation of money may be wholly obviated, and money may be made to constitute, at different times, as well as at the same time, an uniform measure of value.

# CHAPTER XIV.

## *On Lord King's Thoughts on the Effects of the Bank Restrictions.*

CHAPTER XIV.

UPON that part of Lord King's investigation, where an attempt is made to account for the superiority of our exports above imports in the custom-house entries, by the remittance of silver to India, I have already commented; and it now remains to examine the arguments, which he has adduced to delineate the general principles of the circulation of paper. In the conduct of this examination, I should have been gratified to have had it in my power to have passed that encomium on the success of his economical researches, which I was unable to bestow in my prior observations, but the argument, as it proceeds, will shew the little opportunity, which his Lordship has given me of indulging such a disposition.

Notwithstanding the rapid depreciation of money, which the table of Sir George Shuckburgh has so clearly elucidated, and which is not only admitted by every public economist, but is acknowledged by Lord King through the whole of his discussion, he opens his inquiry with observing,(*a*) that the position, which Dr. Adam Smith advanced, that the quantity of paper, in any given country, could never exceed the value of the gold and silver of

(*a*) See Lord King's Thoughts, &c. page 2.

which it supplied the place, or which would circulate, if there were no paper, was sufficiently true for all practical purposes; but by what reasoning Lord King would be enabled to maintain its truth, I am at a loss to conjecture. In the Chapter on the Causes of the Depreciation of Money, I attempted to prove, by a reference to Sir George Shuckburgh's table, that the depression had proceeded, during the first fifty years of the 18th century, to 10 per cent., and during the last fifty, to 61 per cent., beyond what the proceeds of the American mines could effect; and if the reasoning, which I afterwards constructed to shew, that the excess in each instance resulted from the publication of paper, be admitted, it necessarily follows, that paper must have proportionally exceeded the value of the gold and silver, which would otherwise have circulated, or the superadded depression could never have occurred. It was perfectly consistent in Dr. Adam Smith to support the validity of the position, because he denied the fact of the depression; but as Lord King has not only admitted, that the depreciation has taken place, but that the issue of paper is the cause of the depreciation, it is impossible to conceive with what consistency he can endeavour to vindicate its truth.

But, whatever were the sentiments that were floating in his mind, in favour of the position, at the time that he wrote it, they appear not to have had any durable influence; for, notwithstanding his assertion, that it was sufficiently true for all practical purposes, he laid it aside the moment that it was advanced, and so far was he from deducing any practical inference from it, that he never once alluded to it through the whole conduct of his

argument; nor does it again appear till the general recapitulation at the close of the inquiry. A position presented itself to his notice, that offered, in his opinion, a readier solution to the difficulties that embarrassed him. This position was, (*a*) "that paper, like every other article of use or consumption, regulates itself entirely by the effective emand." To this tenet he regularly reverts through the remainder of the work, and applies it as the sole principle of limitation to every description of paper—bank notes, navy bills, exchequer bills, assignats, and provincial notes, none can exceed the effective demand, or if excessive, must uniformly be depreciated in proportion to their excess.

Lord King is not the only author, who has been happy to accept the broad and generous protection of this principle. In every perplexity, in which Sir James Steuart was entangled, the "complicated operations of demand" were sure to afford a prompt assistance and an honourable retreat. But Dr. Adam Smith, who disdained the aid of an indefinite position, and who was peculiarly adverse, from his love of minute and accurate investigation, to loose and indeterminate tenets, added to the word demand the epithet "effectual;" which he interpreted to imply (*b*) "the demand of those, who were willing to pay the whole rent, labour, and profit, that must be paid, in order to prepare and bring to market the commodity, that was required." When, therefore, he asserted, that the quantity of money, in any given country, could never exceed the effective demand, he always meant the demand of those,

(*a*) See Lord King's Thoughts, &c. page 17.
(*b*) See Wealth of Nations, Vol. II. page 149.

who were willing to pay the whole rent, labour, and profit, that must be paid, in order to prepare, and bring to market the metals from the mine. I have already, however, explained the inefficiency of this principle, even when applied to specie; but, when it is said, that the quantity of paper, in any given country, can never exceed the demand of those, who are willing to pay the whole rent, labour, and profit, that must be paid, in order to prepare, and bring it to market, the position is too obviously futile to admit a serious refutation.

As the expense of providing and engraving their paper is to the Bank an object of little moment, this principle would be but ill calculated to afford to the Directors a competent criterion for the regulation of its quantity; and in bringing his position to bear, Lord King seemed himself aware of its inefficiency, as he made no attempt to delineate, in theory, by what operation the banks were to be apprised, that their issue exceeded the effective demand. In the absence of theory, he therefore recommended a practical standard, and said, (*a*) "that a mixed consideration of the price of bullion and the state of foreign exchanges, would probably be the best practical rule, by which the Directors, during the suspension of their payments in cash, could regulate the issue of their notes."

In my Remarks on Currency and Commerce, I adduced an unfavourable exchange and high price of

(*a*) See Lord King's Thoughts, p. 26.

bullion as operative checks to an excessive utterance of paper, because I was enabled satisfactorily to my own mind to trace the operation. I endeavoured to prove, for my fundamental position, that money was invariably made to act in due conformity to the purport of its institution, as an uniform measure of value; and in applying this principle to our circulating system, I attempted to shew, that when the Bank of England, by the over-issue of paper, caused the same sum to measure in this country a less value than it measured in others, the course of exchange became unfavourable, because a larger sum of our coin was given for a smaller sum of the coin of the Continent to reconcile the disparity; and that when the over-issue was so extended as to occasion a greater difference in the value of the same sum than was sufficient to cover the charge of transit, the goldsmiths returned the paper on the Bank for specie to be remitted abroad, or converted into bullion, and by the contraction which they provoked, again reduced our currency to its due proportion, and restored the correspondence of the measure. Upon these grounds I conceived, that an unfavourable exchange, and high price of bullion, naturally resulted from a breach of the system, which I attempted to establish, and were operative checks to the publication of paper beyond its proper limits.

But as Lord King adopted them as a practical standard, without adopting the theory from which I derived their operation, it was incumbent upon him to have shewn, in what manner they were deducible from the breach of his system, the excessive utterance of paper beyond the

effective demand. No author, however pre-eminent his talents, can rationally demand the reception of his doctrine, unless it be full and consistent in all its parts, unless it contain, step by step, in regular progression, a systematic gradation of cause and effect. But as Lord King has left a vast chasm from the first cause to the ultimate effect, from an excess beyond the effective demand to the final correction of the excess, without the intervention of a single link, by which the connection can be traced, he could scarcely expect, that his theory would be admitted. And as I have shewn, that the fundamental principle, upon which he endeavoured to erect his system, was wholly nugatory, no just theory, in reality, existed, to which it could lead.

In reasoning, therefore, on the criteria which the state of the exchange, and the price of bullion, afforded of the value of our currency, without the assistance of a competent theory to guide him, he necessarily deviated into error.

In reasoning on the criterion of the price of bullion, he says, (*a*) "The value of the coinage, in any country, may be discovered by ascertaining the price at which any known quantity of the precious metals is sold. Though the advantage of being in the form of coin gives to the metals in that state a certain preference above bullion, yet this seems in no case to be sufficient to produce any

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(*a*) See Lord King's Thoughts, &c. p. 30.

great difference in value; and all commercial writers have, therefore, agreed in considering the market price of gold and silver as the most accurate tests of a pure or depreciated currency. 'When under all occasional fluctuations,' says Dr. Adam Smith, 'the market price, either of gold or silver bullion, continues for several years together steadily, and constantly, either more or less above, or more or less below the mint price, we may be assured, that this steady and constant, either superiority or inferiority of price, is the effect of something in the state of the coin, which, at that time, renders a certain quantity of coin either of more or less value than the precise quantity of bullion which it ought to contain. The constancy and steadiness of the effect supposes a proportionable constancy and steadiness in the cause.' This observation, respecting a currency in coin, is equally applicable to a paper circulation, not convertible into specie; but, on account of the perpetual fluctuations in quantity and value, to which the latter is exposed, the market price of gold or silver is a test more peculiarly applicable to such a currency. Bullion is, of all articles of commerce, the least subject to variations of price; and though, in comparing distant times, its value is greatly affected by accumulation, or the discovery of new mines, it may be considered as being stationary during short periods."

But I have already explained, that the price of bullion indicates the value of a currency, not because the value of bullion is more stationary than the value of coin, but because bullion and foreign coin are convertible terms;

and therefore, when bullion is high, a demonstration is given, that foreign coin, in consequence of a less relative quantity, is of greater value than our coin; and when bullion is low, that foreign coin, in consequence of a greater relative quantity, is of less value than our coin. The price of bullion is, therefore, regulated by the relative amount of currency; and as it rises or falls, with every change in the proportion, a variation in the one necessarily enforces a correspondent variation in the other.

Nor do the precious metals derive any intrinsic advantage from being in the form of coin. During an excess in the market price of money, they experience, on the contrary, a disadvantage, and are converted into bullion for the enhancement of their value.

Nor is a steady and constant superiority above, or inferiority below the mint price the effect of something in the state of the coin, as I have already explained, that the market price of money may exceed the mint price, notwithstanding the utmost possible purity in the coin, and the utmost possible accuracy in the mint regulations. Nor is it the effect of something in the state of the paper, as the paper of the Bank of England has uniformly corresponded in value with our pure and unadulterated gold coin, notwithstanding the excess in the market price of our money.

The same imperfection of theory that precluded him from reasoning, with due propriety, on the criterion of

the price of bullion, precluded him from reasoning, with more felicity, on the criterion of the state of the exchange. He says,(*a*) "Another test of a pure or depreciated currency, of great importance, though in some respects less accurate than the former, is the state of foreign exchanges. A currency in specie cannot possibly be degraded by any excess in quantity, since the surplus, having an intrinsic value, may be exported to other countries: but paper, not convertible into specie, possesses no such quality." And he then endeavours to shew, that the paper of the Bank of England was depreciated below the value of our coin, notwithstanding that it had not fallen to a discount.

Upon what general grounds Lord King could support the position, that a currency in specie cannot possibly be degraded by any excess in quantity, I am unable to surmise; but the particular reason which he has adduced to establish it, is the strongest argument that can be brought to refute it, for if the specie were not degraded, it would not be exported to other countries. A retrospective view, indeed, of the circulation of Spain, would have immediately convinced him of its fallacy; for if, at the time when the currency of Europe was exclusively composed of coin, the specie of Spain had not been partially reduced in value below the specie of other countries, it would never have been distributed among them. But as he was led by the impulse of his mind, to assume the

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(*a*) See Lord King's Thoughts, &c. p. 31.

principle, that specie could not be degraded, notwithstanding that the standard, which he adopted, convinced him that our currency was depreciated, he naturally conceived, that the degradation attached to our paper only, and that Bank notes were depreciated below the value of our coin, though they were not degraded to a sufficient extent to be subjected to public discount. That our Bank notes were depreciated below the coin of the Continent there can be no doubt, but they were not depreciated below it in a greater degree than our specie; and the error of Lord King consisted in conceiving that our paper was reduced below the value of our own coin, instead of that our coin and paper together were both reduced below the value of the coin of the Continent.

In the chapter on the course of exchange, I endeavoured to prove, that when the paper of any particular country was not convertible into specie at the option of the holder, and a relative excess of currency ensued from its over-issue to such an extent, as to reduce the value of a given sum considerably below its value in other countries, the charge of transit included, the specie would cease to participate in the degraded condition of the paper, and by the annexation of a premium commensurate with the difference, resiliate to a level with its value abroad: but that, till the separation were effected by the adjunction of the premium, the specie would depart from its intrinsic worth, and be equally degraded in value with the paper. If then this reasoning be correct, and it be admitted, that the paper of the Bank of England has not been reduced to a

discount, it is evident, that, pending the excess in the market price of our money, instead of Bank notes having been depreciated below our coin, our coin and paper were both depreciated below the money of the Continent.

But having, as he conceived, established, by the tests of a high price of bullion, and an unfavourable exchange, the depreciation of our paper below the value of our coin, in consequence of its excessive utterance by the Bank of England beyond the effective demand, he endeavoured to represent the conduct of the Bank as the more culpable, by contending, that a favourable exchange was in the natural order of things, and a necessary result of the commercial relations of this country. These animadversions were dictated by an opinion, that a favourable exchange uniformly accompanied a favourable balance of trade; and as he inferred, that our commercial relations regularly led to a favourable balance for the supply of silver to be remitted to India, he instantly concluded, that a favourable exchange no less regularly proceeded from it.

Not only, however, have I already shewn, that his hypothesis of a favourable balance of trade was wholly erroneous, but I endeavoured, in the third chapter of this inquiry, to prove, that a favourable balance of trade, and a favourable exchange, had no connection with each other. Even, therefore, had his hypothesis been correspondent with reason, no inference would have been deducible from it, corroborative of his charge against the Bank of England, as there is no ground for the

conclusion, that it would have necessarily conduced to a favourable exchange.



Of the real principle, which regulated in all countries the state of the exchange, his mind had never formed a just conception. Instead of contending, that the exchange was governed by the relative amount of their currency, and was a faithful representation of the difference in their prices, he attributed its fluctuations in the same manner as the adherents of the old system, to (*a*) the balance of trade, (*b*) the payment of a foreign expenditure, and the import of corn, all of which I have previously explained, in separate chapters, to have no relation to the subject.

Though, however, he were erroneous in concluding, that the notes of the Bank of England were depressed below the value of our specie, yet no doubt could be entertained but that the notes of the Bank of Ireland were depressed below the value of the specie of Ireland, as the equivalency was avowedly broken by the reduction of the paper to a discount, and the resiliency of the coin to a premium correspondent with the value of money in this country. But he was irregular in attributing the excess of Irish paper, exclusively, to the issue of the Bank of Ireland, as the private paper of (*c*) Dublin alone

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(*a*) See Lord King's Thoughts, page 51.

(*b*) See the same author, page 36.

(*c*) The house of Mr. Latouche, to its honour and credit, is the only private bank in Dublin, not actuated by the needy wish to issue paper.

is computed to equal the paper of the national Bank, and as the provinces are deluged with an inundation of notes of the very lowest denomination. I do not, however, mean to contend, that the Bank of Ireland have not abused their privilege, and published a greater quantity of paper than in propriety they should have done, but that private companies have equally abused the privilege, which they possessed, and that the excess is to be ascribed as much to the cupidity of the one as to the cupidity of the other.

The plan, which he recommended for the correction of the abuse, was, (*a*) that the paper of the Bank of Ireland should be made convertible, at the option of the holder, into the paper of the Bank of England. This plan would certainly be efficient; for as no one would hold Irish paper, when he could gain five per cent. or whatever might be the current discount, by converting it into English paper, the run upon the banks for English notes would speedily reduce the currency of Ireland to the same relative amount with the currency of this country, and raise its paper to a correspondent value. But, as I have already shewn, that the paper and specie of this country are precisely equivalent, the Bank of Ireland would experience no greater difficulty in paying in specie, than in paying in the notes of the Bank of England; for as a Bank of England note and a guinea circulate in Ireland at the same premium, the same expense must be incurred in the pur-

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(*a*) See Lord King's Thoughts, page 73.

chase of the one, as in the purchase of the other, as the same sum must be given for the bills, that were to be invested in either of them. The measure would, therefore, go to subject the Bank of Ireland to resume its cash payments, for as our paper and specie are both to be had on the same terms, it is of course to be expected, that the preference would immediately be given to coin.

However desirable such a result would be, it is necessary, that it should be accompanied by the same reform, which Lord Grenville recommended in this country, and that the small notes of the Bank of Ireland and the private banks should be gradually withdrawn from circulation. The general interests, however, of the empire require, that this plan should be primarily executed in this country, and so soon as it has been established here, a similar measure may immediately be proposed for the re-establishment of a mint coinage in Ireland.

But, in reviewing this part of Lord King's inquiry, it is impossible for me not to express my full concurrence in the following denunciation against the present system of the multiplication of banks. In page 75, he says, " an unlimited paper currency cannot exist, in any shape, or under any circumstances, with security or advantage to the public; but it is least in danger of being grossly abused, when it is entrusted to some one experienced and responsible body. The establishment of independent banks in different parts of the empire has the necessary consequence of subjecting the value of the circulating medium to perpetual fluctuations in every district, in which

such banks are established. Under such a system the notes of the several banks must vary in their relative values, and be depreciated in different proportions, according to the various degrees of prudence and moderation, with which the power of issuing the notes is exercised."

After this declaration in favour of the policy of only one bank, I know not by what perversion of reasoning he was led to make the ensuing counter-declaration in favour of the policy of many. In page 93, he says, " the multiplication of banks, as is observed by Dr. Adam Smith, instead of diminishing, greatly increases the security of the public. The circulation of notes being divided into a greater number of parts, the failure of any one company becomes of less importance, and occasions less embarrassment. The competition of rival banks produces in all a greater caution, and more skilful and judicious management. It is indeed by no means improbable, that the country banks have indirectly contributed to the success and security of the Bank of England, by rendering the Directors of that establishment more cautious and circumspect, than they might perhaps have been under any other circumstances."

Having decided, therefore, in favour of his last opinion, that many banks are preferable to one, he enters into a general defence of the circulation of private paper, and controverts the opinion, that it has a necessary tendency to depress the value of money. (*a*) " On the first view of

(*a*) See Lord King's Thoughts, page 101.

the subject," he observes, " it might seem probable, that every addition of paper currency, of whatever description, would have a tendency to depreciate the value of the whole, by increasing that excess, which is itself the cause of the evil. But it will appear on further consideration, that the paper of private banks, immediately convertible into Bank of England notes, has no effect on the value of general currency ; the notes of private bankers being at present regulated by the standard of bank notes, in the same manner as paper currency of every description was formerly regulated by the gold coin. This opinion is by no means inconsistent with what is often alleged, and what must be admitted as an undoubted fact, that there has been a great increase of the notes of private banks, since the act of restriction of 1797. It may be easily shewn, that this increase is an immediate consequence of that measure, and that the additions to the amount of Bank of England notes, since that time, have had the necessary effect of increasing, in an equal proportion, the paper of private banks."

By what illusion Lord King could have been led to imagine, that if the notes of private bankers were regulated in their amount and value by the standard of Bank notes, they could not conduce to the depreciation of money, it would be idle to inquire. The correspondence in their value, and relative quantity with the notes of the Bank of England, certainly precludes their partial depreciation ; but it is impossible to adduce this congruity as evidence of their inability to diminish, in conjunction with the Bank notes themselves, the general value of money. Had he established the fact, that provincial

notes could not exceed the amount of the Bank notes of which they supplied the place, or which would circulate if there were no provincial notes, in the same manner as Dr. Adam Smith contended, that paper could not exceed the value of the gold and silver of which it supplied the place, or which would circulate if there were no paper, I should be ready to accede to the proposition, that provincial notes would not add to the depreciation of money, as Bank notes would have been proportionably augmented, had their publication been withheld. But he well knew that the fact was otherwise; and he not only admits, but contends, not that the one supplied the place of the other, and that the one was increased only as the other was diminished, but that both have increased, and will continue to increase, in the same ratio. Under this admission, it cannot be said, that private notes have no power to depress the value of money, as I have already explained, that if paper be made to answer the purposes of money, it necessarily depreciates the value of money, exactly in the same proportion as an addition of so much coin. In order to have removed the power of depreciation from provincial notes, it was incumbent upon him to have shewn, that they made no addition to the aggregate stock of circulation, that they either led to a correspondent contraction of Bank notes, or a correspondent contraction of specie; but if they produce neither of these effects, and still more, if their augmentation be admitted, though the increase be precisely commensurate with the increase of Bank paper, they must obviously lessen the value of money, in proportion as they are augmented.

So far indeed is the proportional augmentation of paper, by the respective banks, which exercise the priviledge of utterance, from constituting a check to the depression of money, that it forms the very means, by which the depreciation is produced. If no increase took place in the paper, or specie of the Continent, no increase could take place in the paper of the Bank of England, as it is impracticable to advance the prices of one country above the prices of another; and a correction of all further reduction in the value of money would immediately be established. It is by the facility, with which the prices of one place are augmented in the same ratio with the prices of another by the correspondent issue of paper, that the depression proceeds without any controul. Had the country banks forborn to have exercised the privilege of utterance, the Bank of England could not have augmented its paper beyond the relative amount of the specie of the provinces, and some check would have been in operation to arrest the progress of the depression; but as private paper is permitted to advance, in the same ratio with the paper of the Bank of England, all controul is, in this country, removed; and the general depreciation of money is increased, not only by the addition of the provincial notes, but by the augmentation of the paper, which the transfer of the specie promotes in the countries whither it is remitted.

Nor is it requisite, in order to contribute to the general depreciation of money, that the notes themselves should be partially depreciated. On the contrary, their power to cause the depression is diminished by this degradation,

as they only operate to a reduction in the value of money, according to the sum of specie, into which they are convertible: and, therefore, if the premises be admitted, that "private paper cannot be depressed below the value of the standard medium, for which it is interchangeable," they have no bearing to support the conclusion, that it cannot diminish the value of money; as it is the addition, which it forms, to the aggregate amount of circulation, and not its partial degradation, that causes the general depreciation of money.

But even the premises are ill founded; for though the private paper of this country have uniformly maintained a correspondent value with the paper of the Bank of England, yet the private paper of Ireland, after the failure of (*a*) a celebrated provincial house, was reduced to a discount below the value of the paper of the national bank: so true is the opinion which he antecedently expressed, that, "under an unlimited issue of paper, the notes of the several banks must vary in their relative values, and be depreciated, in different proportions, according to the various degrees of prudence and moderation, with which the power of issuing the notes is exercised," though he here change that opinion, and affirm, (*b*) "that there are necessary causes which prevent the notes of private bankers from being depressed below that of bank notes."

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(*a*) The house of Williams and Co. of Kilkenny.

(*b*) See Lord King's Thoughts, page 106.

So little, indeed, does Lord King appear to have understood the subject of the depreciation of money, that he regularly states the cause for the effect, and the effect for the cause, and says, that prices are advanced, because money is depreciated, instead of that money is depreciated because prices are advanced.

The only remaining part of his inquiry, which it is necessary to notice, is the assertion which he made, (*a*) "that the scarcity of silver coin entirely arose from the inattention of those officers of government, who had the direction of the mint, to the change, which has taken place, in the relative values of the precious metals, during the course of the last century." But I have already had repeated occasion to shew, that the nicest observation of the change that takes place in the relative values of the precious metals, and the most perfect adjustment of the mint proportions have no power to obstruct the melting of the coin. The superiority of the market price of our money above its mint price, if the argument of the fourth chapter be correct, exclusively proceeds from the same sum being made to measure in this country a less value than it measures in others; and as the utmost possible accuracy in the mint regulations can have no operation to prevent the over-issue of paper, and a relative excess of currency, it can have no tendency to prevent the superiority in the market price of our money, and the consequent melting of the coin.

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(*a*) See Lord King's Thoughts, page 136.

Lord King does not contend, that the inaccuracy in the mint proportions is to a greater extent than three per cent.; if, therefore, three per cent. were subtracted from the weight of our silver coin, with the view of obviating the superiority in the market price of our money, no effect would result from it corrective of the evil, as he himself has shewn, in the tables adjoined to his work, that the market price has frequently risen to 10, 12, 14, and 16 per cent. above the mint price. The charge, therefore, against the masters of the mint comes from Lord King with the less grace, as, had the mint been under his controul, the same scarcity of silver coin would have occurred, notwithstanding the reform of the irregularity, that may subsist, in the present proportions.

If, then, this commentary on Lord King's observations, be consistent with reason, it is manifest, that in the original principle, which he laid down, that the quantity of paper in any given country could never exceed the value of the gold and silver of which it supplied the place, or which would circulate if there were no paper; in the sub-original principle, which he adopted, that it could never exceed the effective demand; in the reasoning which he constructed on an unfavourable exchange, and high price of bullion; in his conception, that the value of our paper was depreciated below the value of our coin; in his hypothesis, that the superiority of our exports above imports was occasioned by the remittance of silver to India; in the inference, which he deduced from this hypothesis, that a favourable exchange was in the natural order of things, and a necessary result of our commercial

relations; in his opinion, that the excessive utterance of paper in Ireland was, exclusively, attributable to the national bank; in his conclusion, that private paper could not conduce to the general depreciation of money, because it was not itself partially depreciated; and in the assertion, which he made, that the scarcity of our silver coin arose from the inaccuracy of the mint proportions, he deviated from the truth: and that his work is one continued series of erroneous positions.

But there are gradations in error; and however much I may regret, that so little has been added to the science of public economy, by his inquiry, it is impossible not to acknowledge, that the efforts, which he has made to advance it, have raised him to a superiority proudly eminent above Lord Liverpool, and the more misguided adherents of the old system.

END OF VOL. I.

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